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Business this week

Feb 15th 2001
From The Economist print edition

Record breaking

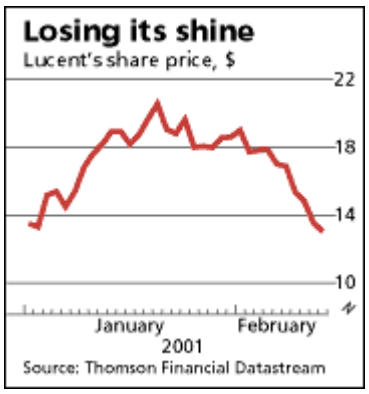
In a victory for the world's record companies, an American court ruled that **Napster**, a free service for downloading music from the Internet, must stop allowing copyrighted material to be exchanged through its website. Napster vowed to continue the legal battle. Bertelsmann, a German media giant, said that its plans to fund Napster if it introduces a subscription and pays royalties were unaffected.

See article: Napster loses another round

The European Parliament passed a law that would make it illegal to circumvent **copyright-protection** technologies in consumer electronics. It is claimed that the law will make copyright protection stronger in the EU than in America.

Schlumberger, an American oil-services company, agreed to buy **Sema**, an Anglo-French software firm, for £3.6 billion ($5.3 billion). Schlumberger also acquired a smartcard company from Groupe Bull, a French technology firm. Schlumberger hopes to strengthen its information-technology business in a bid to improve growth.

Shares in **Lucent Technologies**, a telecoms-equipment maker, plunged after it was revealed that America's Securities and Exchange Commission was investigating the firm over its accounting procedures. Coupled with recent poor performance, the news prompted leading credit-rating agencies to cut Lucent's rating to just above junk status.



Lastminute.com, once a high-flying online travel agent, revealed pre-tax losses for the three months to the end of December of £15.4m ($22.3m), over 60% up on the previous quarter. The company also said that subscriber numbers had not risen, but it insisted that more of its punters were making purchases.

eBay, an American online auctioneer, was said to be in talks to buy **iBazar**, a French counterpart with a strong pan-European presence, for around $100m. **QXL Ricardo**, a British-based rival, also with European intentions, announced pre-tax losses for the latest quarter of £41.4m ($59.9m) compared with £67.7m in the previous quarter.

Rick Belluzzo, head of consumer business at **Microsoft**, was promoted to president and chief operating officer of the company.

Shares in **Orange**, France Telecom's mobile-phone outfit, closed below their offer price on the first day of trading. Orange had been priced near the bottom of a range that had steadily fallen in the approach to the IPO. Other companies, including British Telecom and Deutsche Telekom, aiming to reduce debt by floating their mobile operations later this year, will not have been encouraged.

Reuters, a British media group, abandoned plans to float Greenhouse Fund, its technology-investment fund, after the battering that technology shares have taken over the past year. Reuters said that it would consider outside investment in Greenhouse and that it still intended moving its own products to the Internet despite the recent downturn.

Recycling drive

Volkswagen, Germany's biggest car maker, was reported to be setting aside DM1 billion ($470m) to pay for compliance with a European directive that will come into force in 2007 forcing car makers to pay for recycling their vehicles. New cars will be required to be 85% recyclable.

FIFA and UEFA, the world and European governing bodies for **football**, reached a tentative agreement with the European Commission over a long-running dispute concerning players' contracts. Clubs will no longer receive transfer fees for players older than 23 years.

Nomura, a Japanese investment firm, won a battle to take over some 1,000 British pubs from **Bass**, a leisure group, for around £625m ($907m) after a rival bidder, Legal & General Ventures, pulled out. Nomura is also bidding for another 3,000 pubs owned by Whitbread.

Rival descriptions of the human genome were published by **Celera Genomics**, a private company, and the **Human Genome Project**, an international government-backed consortium, in rival scientific publications. Many biotechnology companies have already paid plenty to acquire Celera's information.

See article: Can science live happily with profit?

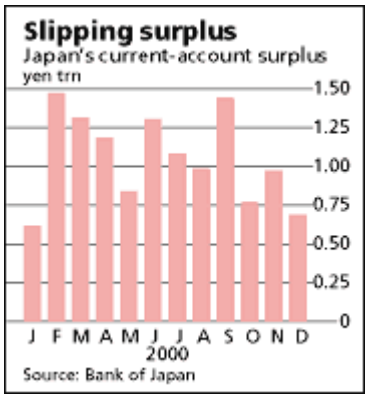
AstraZeneca, a large British drug company, announced a collaborative project with Orchid BioSciences, an American firm, that will use the information on the human genome to produce **tailor-made drugs**. The companies hope to overcome the problem of small genetic differences that can make standard drugs ineffective or produce unpleasant side-effects.

An offer of $17.6 billion was made for **De Beers**, the South African diamond cartel on February 15th. The would-be buyer was a consortium consisting of Anglo American, a mining firm, the Oppenheimer family of South Africa and Debswana, De Beers' joint venture with the government of Botswana. The deal would end the cross-shareholding between Anglo and De Beers that has depressed the shares of both firms.

America's downside

Alan Greenspan was upbeat about **America's economy** in testimony to the Senate Banking Committee. He said "downside risks predominate", suggesting that the Federal Reserve would cut interest rates again, but maintained that the economy would come back swiftly from the current pause. Improvement was immediate: retail sales were up 0.7% in January, compared with no growth in December.

Japan's current-account surplus fell in December to ¥688.5 billion ($6.14 billion). The economic slowdown in America, its biggest trading partner, reduced exports and dear oil took their toll as well.



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The world this week

Feb 15th 2001
From The Economist print edition

Architect of defence

President George Bush announced that he wanted to create a "new architecture" for defence by investing in new technologies and weapons systems, rather than tinkering with the old. He also declared "God bless NATO", taking his listeners by surprise.

EPA

See article: A radical new defence policy

Mr Bush was due to visit **Mexico**, his first trip abroad as president.

Outrage continued to swirl round **Bill Clinton** as he plunged into his post-presidential career. Under severe media pressure, he shifted his new office from swanky mid-town Manhattan to low-rent Harlem, a place with which he claimed long and heartfelt connections. Meanwhile, Congress said that it wanted to look into Mr Clinton's pardon of Marc Rich, a fugitive financier. The US attorney in New York, Mary Jo White, said she would conduct a criminal investigation into the affair.

See article: Bill Clinton, still in trouble

At least 225 people, including 22 children and their teacher in one school, were killed in an earthquake in **El Salvador**, the second in the past four weeks.

A 13-point deal was signed between **Colombia**'s President Andres Pastrana and the leader of the left-wing FARC rebels, Manuel Marulanda, renewing the life of a demilitarised zone controlled by the rebels and thus preparing the way for a ceasefire.

See article: A deal of sorts in Colombia

Mori in the rough

Japan's unpopular prime minister, Yoshiro Mori, became even less secure after he was criticised for continuing a game of golf after being told of an accident in which a Japanese trawler had been sunk by an American submarine, drowning nine people.

See article: Japan's leader in more trouble

AP

It was announced in **Hong Kong** that the financial secretary, Donald Tsang Yam-Kuen, would replace a champion of the territory's autonomy, Anson Chan Fang On-sang, as chief secretary. A banker, Anthony Leung Kam-chung, would take over from Mr Tsang.

Afghanistan's ruling Taliban told the United Nations to close its political office in Kabul, the capital, after American officials closed the Taliban's office in New York. Opposition fighters in Afghanistan seized Bamiyan, a town held by the Taliban.

Senators in the **Philippines** examined a bank account said to belong to the deposed president, Joseph Estrada. More than $60m had allegedly been withdrawn before Mr Estrada was ousted last month, accused by his opponents of corruption.

Thailand closed a crossing with Myanmar, after Myanmar's soldiers were reported to be massing on the border and firing into Thai territory. Myanmar said it was shooting at rebels.

Kohl's fine

Germany's former chancellor, **Helmut Kohl**, accepted a fine of DM300,000 ($141,000) for accepting secret and therefore illegal contributions to his Christian Democratic Union. If he agrees to pay, criminal charges against him will be dropped, but a parliamentary inquiry into the affair will continue.

Germany's new farm and consumer-protection minister, **Renate Künast,** fiercely criticised the European Commission's latest plan for culling more cattle in its effort to fend off BSE, or mad-cow disease.

The Social Democratic prime minister of **Sweden**, Goran Persson, said he would not hold a referendum before the next general election due in 2002 on whether Sweden, one of the three EU countries not within the euro-zone, would join Europe's single currency.

Ireland was formally reprimanded by the European Commission for the expansionary budget it plans for this year, but the Irish finance minister, Charlie McCreevy, refused to change it.

See article: Ireland's euro-sins

Protesters on the streets of **Ukraine**'s capital, Kiev, continued to call for their president, Leonid Kuchma, to resign, while a leading critic of his, Yulia Timoshenko, a deputy prime minister in charge of energy, was arrested for alleged corruption.

See article: Ukraine's shaky president

Jacques Chirac, France's conservative president, disagreed with a plan of Lionel Jospin, its socialist prime minister, for devolving powers to **Corsica**.

More peace talks

Leaders of several of the countries and rebel factions involved in **Congo**'s civil war met for peace talks in Zambia. But the presidents of Rwanda and Uganda stayed away.

Some 250,000 **refugees** remained trapped by fighting between the Guinean army and rebels encroaching from Sierra Leone and elsewhere. Ruud Lubbers, the new United Nations high commissioner for refugees, visited Guinea and Sierra Leone to arrange emergency aid and the evacuation of refugees.

Israel's military killed a senior Palestinian security official in a rocket attack. A Palestinian bus driver drove into a queue at a bus stop, killing eight Israelis and injuring 17 others, and raising tensions still further.

AP

See article: Aid for Palestinians evaporates

People flocked to the polls in **Bahrain**, an authoritarian Gulf emirate, to vote on a new constitution that would institute a partially elected parliament and grant women political rights.

Iraq's national airline resumed scheduled international flights for the first time since the Gulf war, in apparent defiance of UN sanctions.

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Science and profit

Feb 15th 2001
From The Economist print edition

ONCE upon a time, pure and applied science were the same. Sir Humphry Davy discovered seven chemical elements, and invented the miner's safety lamp. Louis Pasteur investigated the properties of molecules, and worked out how to stop milk spoiling. Everybody thought that was admirable. Somehow, things have changed. Today the feeling is widespread that science and commerce should not—must not—mix. There is a queasy suspicion that the process of discovery is in some way corrupted if it is driven by profit.

This week saw two things that reflect this suspicion, which for many people is hardening into unshakeable conviction. One was the unease that greeted publication of the sequence of the human genome (see article). The other was a report by Oxfam, a British charity, on the plight of people in the third world, too poor to buy the western medicines they need to stay healthy. The cases may seem unconnected, but they are not. The underlying issue is the same, and goes to the heart of the debate over science and profit: what are the terms on which scientific knowledge can be owned?

Performance bonus

In the case of the genome, two groups have been in contention: one funded mainly by taxpayers, dedicated to the public good; the other funded privately, dedicated to the pursuit of profit. The race was acrimonious—with one side charging that the genome is the heritage of mankind, and the other seeking to establish commercial rights over it. The Oxfam report thumps away in more traditional style, denouncing western capitalism and complaining that drug companies concentrate on treatments for rich-world diseases, leaving the poor to fend for themselves, and that they keep their prices too high. In both cases, it is alleged, the ignoble search for profit distorts and corrupts.

These accusations are ill-conceived. Needless to say, not all science should be, or can be, driven by profit. Some fields of research are done to satisfy man's spiritual, rather than material, appetites. They seek answers to the sorts of "how did we get here?" questions which earlier generations confronted with religion. Another kind of knowledge may be useful and practical, yet too diffuse to be owned. This constitutes what economists call a pure public good. Pure public goods, when costly to produce, are nowadays funded by taxpayers and provided by governments—because, for the most part, they have to be. That leaves the rest: a fabulous vista of scientific, and commercial, opportunity.

The problem with the genome is that when it moved from the second category to the third, it took the scientists in the public project by surprise. The founders of Celera Genomics found a way to profit from the genome—or, to be more accurate, from carefully annotated and ingeniously packaged descriptions of bits of it, which drug companies are happy to buy (see article). As a result, they got a move on. They did their work faster and in some ways better than their public-sector rivals—who would probably still be plodding towards their goal had they not had the spur of competition. The public researchers complain that Celera drew on public knowledge in order to advance their private goals. So it did—that is what public knowledge is for.

However, the genome remains a common heritage. Celera's activities do not stop other people using that public knowledge—and even packaging it for sale in other ways than those done by the firm. Genomes are not inventions and cannot be patented. Celera has no proprietary rights over the human genome *per se*, just over its version of that genome. In short, Celera's pursuit of profit has been good for science, and for man.

Difficult technical questions about the design of patents for particular genes (which are allowed) still need

to be resolved. Any company seeking to assert ownership of scientific knowledge needs to be held to the traditional tests: advances should be original, non-obvious and useful. This standard has not always been rigorously applied. But none of this alters the basic fact that, in genome research, science and profit have mixed very productively.

The question of third-world drugs is undeniably more vexed—but impugning the profit motive is a fatuously inadequate answer. If not for the lure of profit, the drugs that Oxfam wants sent to developing countries would not exist in the first place. Now that the drugs have been developed, it is often argued, the cost of manufacture is, in most cases, much lower than the price charged. This is gouging, the indictment goes on: drug companies could make money even if they sold the drugs much more cheaply. Again, because of profit, the benefits of science are being withheld.

Nonsense. Developing drugs is expensive. If companies are to keep trying, they must expect to make enough profit to meet the cost of developing not only the drugs that work, but also the ones that do not. Consider another point. Presumably, as good profit-maximisers, firms would be willing to increase their sales in the third world, even at knock-down prices, if they could maintain their profits in the West. They suspect, with reason, that demands would soon arise for prices to be cut there too; “grey” re-importing would increase, as well. These concerns deserve to be taken seriously.

The case for much more generous provision of life-saving drugs to the developing countries is irresistible both morally and as a matter of economics. But it is naive, wrong and in the long run counter-productive, to expect the cost of this aid to be met out of drug-company profits. Instead, rich-world taxpayers should pay. It would be much better to spend aid money on drugs for developing countries than it is to waste it in the usual ways.

Far from compromising science, profit in both these cases—the development of new medicines and the elucidation of the genome—has animated it, and directed it towards meeting pressing human needs. It is a happy marriage. Davy and Pasteur would surely have approved.

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Dressing for the downturn

Feb 15th 2001
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As America's economy slows, business casual is proving rather too casual

ONLY a year ago, the suit and tie seemed headed for extinction—along with other old-economy anomalies like profits, proven products and payment in cash. In the new economy, workers would wear whatever clothing best got their creative juices flowing, without unduly restricting freedom of movement while playing table football and engaging in other activities *de rigueur* in the modern cutting-edge working environment. This sartorial revolution started, inevitably, in Silicon Valley, but by last spring it had stormed even the most sober and traditional banks, consultancies and law firms of Manhattan and the City of London. One by one, they all went "business casual". A charity was established to redistribute suits to the unemployed—not that a jacket and tie were any longer going to help anybody get a job.

Now, it turns out, the vision of an open-neck future was but a mirage. Suits are back. According to the Doneger Group, a "style consultancy", sales of suits and dress shirts bottomed in the third quarter of last year, and have since rebounded sharply. The evidence is clearest in New York, where many a suit has been rescued from the wardrobe, with chinos and polo-shirts relegated to the weekends. Only workers who never come face to face with customers or senior managers can still fearlessly wear jeans and T-shirts—with the notable exception of technical staff, of whom nothing smarter was ever expected in the first place.

Even America's congenitally casual west coast is going conservative. The new vogue is "dressy casual". At a minimum, *The Economist* has found, shirts are once more being tucked into trousers. New-economy trendsetters such as Bill Gates, Michael Dell and Larry Ellison have all been seen looking dapper. When Steve Case, boss of AOL, wore a tie at the announcement of his firm's purchase of Time Warner a year ago, it was interpreted as a gesture to reassure Time workers. With hindsight, it seems Mr Case simply had a feel for fashion. George Bush, sure-footed in his first weeks in the White House, has banned jeans from the Oval Office and wears a suit almost everywhere except on the ranch.

The time has surely come to replace the old "hemline theory" of economic cycles with a new theory of suits. Back in the 1920s, George Taylor, an economist at the University of Pennsylvania, argued that hemlines on women's skirts were a useful indicator of economic activity. They moved higher in good times, because women could afford to wear, and show off, expensive silk stockings. In hard times, they moved lower, as modesty required that less expensively clad legs be covered. Sure enough, skirts were short in the roaring twenties, and long in the Great Depression.

A turn-up from trousers

Now that women have more to think about than their stockings, the wearing of suits may be a more reliable guide to economic trends. In any case, many female executives have abandoned hemlines altogether in favour of trousers.

The suit is the perfect attire for hard economic times. It speaks of seriousness of purpose and self-discipline. It speaks of dullness, too, which is a welcome contrast with the anarchic creativity of the dotcoms. A suit saves time, because it requires no thought and still looks all right—a crucial competitive advantage in the labour market that men long enjoyed over women. How foolish it was to throw that away. If you want to show you are more than new-economy flotsam, get yourself a smart three-piece.

Above all, the backlash against suits revealed a labour market so tight that workers had all the cards. Bosses hated seeing their staff slouch contemptuously in torn jeans and jumpers, but had to put up with it. Now, jobs are harder to come by, and involve more work and less play. The suit is back. Everywhere except *The Economist*, of course. Here, freedom of movement is a religion.

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Indonesia's divided leaders

Feb 15th 2001
From The Economist print edition

Indonesia cannot afford both an incompetent president and an equivocating vice-president. If only they would pull together

Get article background

PLAIN speaking is not one of Megawati Sukarnoputri's strong points. So when Indonesia's vice-president this month said her country had never been in a worse state since its foundation 56 years ago, her words carried quite a punch. But, as usual, Miss Megawati was not as clear as she might have been. That she spoke out at all was an implicit criticism of the president, Abdurrahman Wahid, and carried the hint that she might be ready to replace him, just 16 months into his five-year term. But such nods and winks serve only to heighten instability. It would be better if Miss Megawati made an open bid for power, or, failing that, threw her support wholeheartedly behind the president.

Her lament was an exaggeration: Indonesia, sadly, has been through worse than this before, both during the slaughter that accompanied the rise to power of ex-President Suharto in 1965-66 and in the bloodshed and economic collapse that precipitated his downfall over 30 years later. But Miss Megawati was right that her country is in a mess (see article). The economy has never fully recovered from the whirlwind of 1997-98. Political uncertainty deters foreign investors, while the IMF and aid donors are exasperated by the slow progress of reforms that have been promised and, worse, the attempts to reverse some, such as the new independence of the central bank, that have actually been achieved.

Mr Wahid, who has suffered two strokes and is nearly blind, now faces a drawn-out process of impeachment for alleged corruption. Demonstrations for and against him have turned violent. He has flirted with declaring some sort of martial law, but his promises to bring to justice those guilty of plundering the nation during the Suharto years have proved largely empty: witness the failure of the police to arrest Mr Suharto's son, Tommy—hardly a shrinking violet or master of disguise. Separatist pressures mount at either end of the huge archipelago, in Aceh to the west, and Irian Jaya to the east, while communal killings disfigure the Moluccas.

All of this matters far beyond Indonesia's borders. With its 210m people, its troubles cast a shadow over the whole region. Its neighbours treat it indulgently out of fear not so much of its strength but of its weakness, and of the spectres that evokes: in the short term, economic stagnation; in the long term, waves of refugees, pirate-infested seas and a power vacuum to be filled by competitors such as China.

Is this the president's fault? Yes, partly. Many, including this newspaper, gave a cautious cheer when Mr Wahid took office. His record as a Muslim leader known for his tolerance, and for his long-standing, if often bewildering, commitment to democracy, suggested he might, however improbably, make a success of the job. In fact, he has done some good. His government has tried to reduce discrimination against the Chinese minority, for example, and has at least tried to talk to separatists. But too many of his policies have been vague. When they have been clear, they have soon changed, or, as with the sensible-seeming efforts to give greater autonomy to the provinces, they have been botched. Moreover, the style that suited Mr Wahid when he was the dissident leader of a non-governmental organisation does not work now that he is president. His jokey way of shrugging off trouble once seemed charming. It has become a refusal to face criticism, punctuated by ill-tempered bouts of ineffectual authoritarianism.

Megawati's mini-voltage

Mr Wahid's popular support stems from his former leadership of Nahdlatul Ulama (NU), a Muslim social organisation with more than 30m members, founded by his grandfather. He used to acknowledge that this gave him a kind of feudal power that, he said, he could use to foster democracy. It can no longer be taken for granted that his democratic instincts lie deeper than the feudal ones. Unfortunately, exactly the same could be said of Miss Megawati, whose prominence originally stems from the reverence felt for her father, Sukarno, Indonesia's first president. Too often in recent years Miss Megawati has appeared aloof from the rough-and-tumble of democratic politics, as if, like a queen, she could simply wait for the mantle of power to alight on her shoulders. This, her supporters would say, is the way things are done in Java.

But not in a democracy. Miss Megawati does have one strong claim to the presidency: her party won more votes than any other in the parliamentary elections in 1999. She was then outmanoeuvred by Mr Wahid in the electoral college that chose the president. She still has, in theory, a better chance than Mr Wahid of leading a cohesive parliamentary coalition, and enjoys broad popular support. More worryingly, the army, too, would probably prefer her to Mr Wahid. Its backing might bring stronger government, but also increasingly restive regions. It would be a mistake to try to bind together the nation her father founded by military might alone.

In the event, a Megawati presidency might turn out all right. It is not a prospect, however, until the impeachment uncertainty is over—unless Mr Wahid should resign. He may in fact still be able to redeem himself, if he calls off the NU's street-fighting elements, admits that he himself is not above the law, and appeals to Miss Megawati for her support, as a nationalist icon. That remains the best hope. It is certainly far better than a long power-struggle, played out not just in parliament and the presidential palace, but on the streets.

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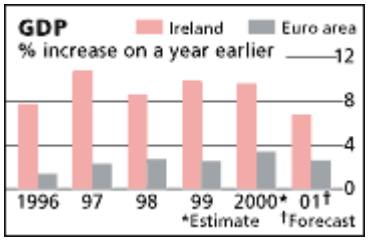
Ireland's euro-sins

Feb 15th 2001
From The Economist print edition

The European Commission is wrong to reprimand the Irish for their loosening of fiscal policy



IT IS a pretty rum way to promote the merits of Europe's single currency. The European Commission has taken the euro-zone country whose economy has been growing the fastest, which has broken no rules either from the Maastricht treaty or from the subsequent "stability and growth pact", whose public debts are falling, which has the largest fiscal surplus (as a share of GDP) in Europe, and, frankly, whose success or failure makes just about the least difference to all the others. And, on February 13th, it publicly criticised that country—Ireland—for having recently loosened its fiscal policy, and thus flouted the euro-zone's "broad economic policy guidelines". This was the first time it had delivered such a formal reprimand to a euro-country. A better way to discredit the single currency in the eyes of potential members—such as, well, a certain large country between Ireland and the continent—could scarcely have been dreamt up.

To some degree, this judgment is unfair. After all, the commission merely wagged its finger at Ireland, something international institutions do all the time to one country or another, and Ireland is free to wag its finger, or rather two fingers, back. Even so, the question remains whether, at a time when the euro sorely needs to become more popular, this reprimand was wise. For, strictly, unless Ireland breaks the stability pact's rule against running a budget deficit of more than 3% of GDP, Irish fiscal policy is none of the commission's business.

Was the criticism even justified? Far from having a deficit, Ireland has a fiscal surplus of 4.6% of GDP. Last year, its economy grew by nearly 10%, and it has recorded an average annual growth rate almost as good over the past five years. This small, once-poor country has been catching up with its richer partners, which is meant to be one of the purposes of joining the European Union in the first place. Barely more than 4% of the working-age population is jobless, and inward immigration is expanding the labour force. Nor does this success arise from the EU handouts, amounting at times to 4-7% of GDP, which have helped it build so many roads and other public works during the past 30 years. This Irish success is of Irish making, as successive governments have opened the country's markets, lowered taxes, improved education and managed the public finances in a sensibly austere way.

The blot on Ireland's record is its high inflation, which hit an annual rate of 7% last December. It is this figure, easily the highest in the EU, that has caught the eye of its European colleagues. In December, rather than raising taxes as some recommended, Ireland's finance minister, Charlie McCreevy, lowered them and raised public spending in a mildly expansionary budget. Helped by cheaper oil, the inflation rate is now dipping. But there are fears that Mr McCreevy's budget will stoke the economy up again, and revive inflation.

And so it may. But it is a close call, on which reasonable people can disagree. Ireland's inflation may be too high, although given the Irish economy's current super-competitiveness it may well be that higher wages will prove an effective way to even things out again, in the absence of currency movements that could have done the same. But the most important point is that, whatever your view, Ireland's inflation harms nobody but the Irish. It will not affect the euro's credibility on world markets, nor have the slightest measurable effect on euro-zone inflation as a whole.

The Economist's view has long been that, with monetary policy now exclusively in the hands of the European Central Bank, and with the Maastricht treaty having explicitly banned the ECB from ever bailing out a defaulting member, countries should be allowed more freedom to set their own fiscal policies, not less. The European Commission disagrees, feeling that fiscal policies need "co-ordinating", and that limits must be set to deter "bad" behaviour. Even on its own terms, however, this policy does not justify the reprimand to Ireland.

Blarney from Brussels

If a big economy, such as France, Germany, Italy or Spain, were to pursue inflationary policies, then that could indeed affect inflation in the whole currency zone and, on the commission's argument, might merit a reprimand. But that is no reason to make a scapegoat of tiny Ireland. Some officials argue that if Ireland's sins are ignored, then it will not be possible to chase bigger countries' sins when they really matter. Yet this is surely nonsense. To launch a scarcely credible attack now on the euro's most successful member is no way to boost the credibility or authority of any future attacks.

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Reforming the sisters

Feb 15th 2001
From The Economist print edition

If America's new administration would like a challenge, it can try changing the IMF and World Bank

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CALLS for fundamental reform of the Bretton Woods sisters—the International Monetary Fund and the World Bank—are hardly new. They are a permanent part of the background noise in Washington, DC. Sometimes the mumbling and grumbling subsides until it is barely audible. Sometimes, in the aftermath of the most recent international financial calamity, it rises enough to be noticed. The volume fluctuates but the flow of suggestions is constant. If the developing countries had a dollar for every proposal to change the "international financial architecture", the problem of third-world poverty would be solved.

Soon, just possibly, something may actually happen. America's policies towards the Fund and the Bank are decisive, for good or ill—and the new team in the White House seems well equipped to demand and oversee a process of reform that is, indeed, overdue. Larry Lindsey, the president's chief economic adviser, is known to entertain radical thoughts on the subject. More generally, when it comes to international economic co-operation, the administration's sceptical cast of mind is the right way to start. Conventionally "internationalist" administrations, like the previous one, are too inclined to see the IMF and the World Bank as ends in themselves, as signs of enlightenment and virtue, however much a mess they may make of things. It is quite right to ask, as the new administration is more likely to, whether these bodies need to exist at all, exactly what purpose they are intended to serve, and just how well they are discharging their duties, whatever these may be.

It is also encouraging that a useful blueprint for reform—a starting-point, at any rate—is already to hand. Last year, making itself heard above the general racket, was a plan set out by the Meltzer Commission. This group, sponsored by Congress, was chaired by Allan Meltzer of Carnegie Mellon University, and drew on an impressive range of expertise, including that of Harvard's Jeffrey Sachs, who is a leading thinker on development, not noted as a Republican Party patsy, but nonetheless a trenchant critic of the Bank and, especially, the Fund. The group did not achieve unanimity, but it did produce a report that commanded support from across the ideological spectrum, laid down some radical yet sensible basic principles, and was warmly applauded by senior congressional Republicans. All this is quite promising.

The commission's main idea can be stated briefly. In different ways, both the Fund and the Bank have been trying to do far too much. The IMF, first conceived as a provider of liquidity in emergencies, has become a development institution, advising and requiring borrowers not merely to repay, but to reform the deep micro-structure of their economies. It has little expertise in this area; such policies, forced on governments in circumstances like these, tend not to stick; and so wide a development remit in any case overlaps with that of the Bank. The Bank, on the other hand, has not broadened its operations; rather, it has failed to narrow them as conditions—notably, the development of global financial markets—have changed. Most of its loans go to countries with access to private international capital. The countries which, according to the Bank's own analysis, could make best use of its resources receive a comparatively small share.

To be more effective, the Fund and the Bank both need to do less. The bosses of both institutions have duly declared themselves committed to sharpening the focus and so on (see article). They always say that. Almost certainly, if it means shedding lots of people and seeing their budgets shrink, they don't mean it. That is where the administration comes in. It will have to lean heavily if things are to move in the direction the Meltzer Commission proposed.

Covert operations

Will it? Maybe not. Especially in the case of the Fund, the problem of mission creep is at least as much the fault of successive American administrations as of the Fund's own managers. Often, notably in Russia, the Fund has stepped in to do America's foreign-policy bidding, even though by its own lights its actions were risky at best. The quid pro quo for a properly focused Fund and Bank is greater willingness on the part of Congress and the administration to give more aid of their own explicitly, either to serve national-security goals or to pursue development objectives which lie, for whatever reason, outside the scope of the institutions. Sadly, the administration may, like its predecessors, find it all too convenient to have a misdirected Fund and Bank do its bidding and then take the brickbats.

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Educating Tony Blair

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From The Economist print edition

The Labour government is doing the right thing with Britain's schools, but dare not say so

CONFRONTATION is not Tony Blair's style. When he is doing something genuinely radical, he prefers to pretend that he is not. But nobody should be fooled by his attempts to obscure the implications of the educational reforms published this week. He is doing something difficult and important, and deserves the credit for it.

So far, Labour's record on education has been reasonably good. By sticking to most of the previous Conservative governments' standards-raising agenda, Labour can claim that many of its reforms have contributed to a continuing rise in educational attainment. The targets for numeracy and literacy will be met ahead of schedule. Class sizes in primary schools have fallen. GCSE and A-level results have improved. Yet these improvements come from a low base. By international standards, British children are still embarrassingly badly educated, especially between the ages of 11 and 16. That is why the government is now addressing the difficult question—the structure of the secondary system.

More than 30 years ago, the Labour Party set about abolishing Britain's selective education system and replacing it with a comprehensive one. The party is still wedded to the comprehensive system. The middle classes, who used to get good state education for their brighter children, increasingly think it a disaster. Their votes were crucial in winning Mr Blair such a large majority in 1997, and he wants to keep them for this year's poll—but without alienating his party.

The prime minister's spokesman, Alastair Campbell, whose language is less emollient than the prime minister's, encapsulated the essence of the reforms outlined in this week's Green Paper in his usual elegant style: the era of the "bog-standard comprehensive is over", he said. The government plans to dismantle the "one-size-fits-all" comprehensive system by increasing the number of "specialist" schools from the present 536 to 1,500—almost half of the secondary schools in England and Wales. Specialist schools can attract increased state funding by choosing 10% of pupils on the basis of their "aptitude" for a special subject area such as languages or engineering. Labour also wants to see voluntary organisations, businesses and churches take over the running of more schools to give them a distinctive ethos.

Say it, Tony

For "chosen by aptitude" read "selected for ability". Selection is the word that dare not speak its name in Labour circles. It does not make an appearance in the Green Paper. Mr Blair refuses to espouse it: in an article in the *Times* he criticises "rigid selection" of the sort practised in the days before comprehensives, and does not go on to explain what he thinks of flexible selection, or selection with any other epithet that may sound nicer. Yet selection is what he is planning, even if it is only for half of Britain's schools, even if it is for only 10% of pupils, and even if he refuses to use the word.

This scheme is nothing to be ashamed of. The sort of selection proposed is better than what is there now and better than the older sort. At present, there is selection by postcode: those middle classes who have not opted out of the state system altogether get their children into decent schools by buying houses nearby. The old 11+ exam used to grade children according to one sort of intelligence only, thus failing to reflect the range of human abilities. These proposals allow that some pupils are good at one subject, but not at another. An innumerate child is not necessarily somebody who should spend the rest of his

educational career doing woodwork: he may be a linguistic genius, or she may be a musical diva.

No doubt Mr Blair knows all this. But he needs to boast a little more bravely about what he is doing. Unless he does so, voters are likely to remain sceptical about how radical the promised reforms will be. Selection, and competition between schools for pupils, as well as between pupils for schools, are the only way to give British education a real lift.

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Letters

Feb 15th 2001
From The Economist print edition

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Bush and abortion

SIR—To say that George Bush's reinstatement of the "Mexico city policy" ("Trench warfare", January 27th) was not "particularly harsh in its impact" is an insult to the women, men and children who will suffer as a result. You have to live in a country where women can get safe and legal abortion to say something as casually dismissive as "in many parts of the developing world abortions are illegal anyway." This ignores the fact that unsafe abortion, particularly prevalent in those countries, kills thousands of women every year, and that it is precisely the programmes that the Mexico city policy hits the hardest that have the best prospect of saving those lives.

The policy is known as the "global gag rule" for the restrictions it places on the way organisations outside America use their own money. It stops people speaking out about abortion, whether it is to advise a woman about options open to her or democratically trying to stimulate a change in the law. This is nothing less than an affront to the principle of free speech, as guaranteed in America's constitution, and ironically will hurt those activities that reduce the demand for abortions worldwide by providing contraception.

The gag rule forces overseas community-based organisations like the International Planned Parenthood Federation (IPPF) to make an impossible decision: forgo desperately needed American family-planning assistance or sacrifice their rights and responsibilities regarding their clients. Either choice hurts the world's poorest and most marginalised communities. We had expected to receive $8m from USAID for the period between September 2001 and August 2003. We will now lose this.

The social impact is unmistakable: under the gag rule recipients of American family-planning funds must give up the ability to provide legal health services and the right to take part in important policy debates in their own countries. To place these restrictions on family-planning choices disempowers women and men and, crucially, undermines their efforts to extricate themselves from poverty. That is harsh in anyone's book.

INGAR BRUEGGEMANN
Director General, IPPF
London

Populist Klaus

SIR—I realise that to combine free-market ardour with a Eurosceptical tone, as you think Vaclav Klaus does, can be attractive (Charlemagne, February 3rd). But, alas, Mr Klaus is no free marketeer; indeed, he is the last person deserving the label Thatcherite. He never truly embraced the market. When he privatised the Czech economy his main concern was to keep it in Czech hands. Assets were sold (or, rather, transferred) to individuals and groups who borrowed from the Czechs' state-owned banks. And who got the loans? Political friends of Mr Klaus and his party. Under Mr Klaus not a single bank was fully privatised. Foreign direct investment remained low; the purchase of Skoda by Volkswagen was carried out despite the objections of Mr Klaus.

He is the worst sort of Central European politician, all too common at present, who knows how to play the nationalistic card and conducts politics in a crude and abusive manner. He invariably dubs his opponents, including President Vaclav Havel, as stupid, criminal, elitist, spoiled, middle-class and so on. Of course he does not understand the meaning of "civil society".

JAN HENDRIK SIEMSSEN
Prague

Good pint

SIR—I must take exception with the comment made by John Wakely that "when Budweiser goes up against Tsingtao in China, what is the difference except price?" ("The big pitcher", January 20th). His taste buds must have gone walkabout. Your description of Budweiser as "watery fizz" is spot on; Tsingtao, along with Singha beer here in Thailand, has flavour. The only similarity to Budweiser is the fizz bit.

PATRICK TAYLOR
Bangkok

People power

SIR—You bring to the fore legitimate concerns about the stability of the new Philippine government and the fate of democracy ("After the B movie, a new main attraction for Filipinos", January 27th). At the crux of the issue is whether the Filipinos judiciously used "people power" this time.

"People power two" might not have advanced the cause of democracy in the Philippines because it impinged upon the constitutional process of impeaching an ineffective and lawless president. Also, it was used not to oust a dictatorship but to eliminate immorality and corruption in government. But I would not fault the Filipinos for what they did. I would suggest, instead, that in the Philippines, as in many developing societies, the meaning and purpose of true constitutional democracy is yet to be adequately understood and appreciated.

For all their moral indignation (admirable in itself), Filipinos must allow democracy to flourish by allowing the rule of law to take hold; by aiming for genuine republicanism wherein leaders derive their authority from the enlightened consent of the governed and rule to promote people's interests over and above their oligarchic interests; by demanding from that government a fulfilment of its duty to secure and maintain individual rights and liberties; and, in the spirit of the principle of separation of church and state, by drawing from the Catholic church moral inspiration and not political agitation.

PRISCILLA TACUJAN
Burbank, California

Football commentary

SIR—I am well aware that *The Economist* is a British-based newspaper but this does not forgive or explain all transgressions. You state that the NFL "ties American males to their sofas on Saturdays" ("Rage v Maniax", February 3rd). NFL games are played almost exclusively on Sundays. I suppose I should be thankful that you were able to restrain yourself from prefacing "football" with the modifier "American".

For future reference: baseball is played throughout the week, golf and tennis tournaments tend to finish on Sundays, and at my work our spirited departmental table-soccer outings usually take place on Wednesday evenings.

JULIAN JAMISON
Evanston, Ilinois

SIR—I read the piece on the XFL league with a sense of déjà vu. In the 1970s an American science fiction writer, Norman Spinrad, wrote a short story based on the concept of a TV network, locked out of mainstream American football, that devised an alternative version of the game to set up its own league unhindered by copyright rules. This began with the kind of (relatively) minor rule tinkerings planned by XFL. It rapidly moved on to a format where player armour was dispensed with, every form of violence possible without actual weapons was licit and, finally, where teams were consciously structured on racial and other group lines (there was a gay team, for instance) to improve audience identification with the sides. The whole thing was, of course, hugely popular.

BRIAN DITCHAM

Gillingham, Kent

Israel's future

SIR—You criticise Ehud Barak's peace plan as not having worked, and Ariel Sharon's as being unworkable ("Saying no to peace", February 3rd). Fair enough; but Yasser Arafat has never submitted a peace plan of any kind, and has no intention of doing so. Why not criticise him?

Like any fully functioning democracy, Israel has its extremists, whom you label "crazies". Israel does a good job of marginalising its crazies. By contrast, the nearly two-dozen Arab governments, including Mr Arafat's dictatorship-in-waiting, have no problem with political crazies. They also have no democracy, no representative elections, no free speech or free press, etc.

You denigrate as "myth" the heartfelt Jewish belief "that Jerusalem should be Israel's eternal, undivided capital." Some two decades before the state of Israel was recalled to life in 1948, Arthur Balfour suggested to his friend Chaim Weizman that a Jewish homeland might be established some place other than in biblical Israel. Weizman asked Balfour if he, as an Englishman, would exchange London for Paris. "But we have London," protested Balfour. "Yes," answered Weizman. "And when London was a swamp, we had Jerusalem."

MILTON HIRSCH
Miami

SIR—Ariel Sharon has not made public his plans for the occupied territories but it is likely that the present policies of collective punishment against Palestinian civilians and expansion of illegal settlements will continue. It is therefore important to restate Israel's obligations under international law.

On many occasions the international community has reaffirmed in the UN General Assembly and Security Council that Israel is an occupying power of Gaza and the West Bank, including East Jerusalem, and bound by the fourth Geneva Convention. This guarantees protection to Palestinian civilians in the occupied territories against torture, killings and the use of excessive, indiscriminate and disproportionate force, land confiscation and demolition of homes, and other measures whether applied by civilians or soldiers.

A new era of Israeli compliance with international law and respect for the human rights of Palestinians under its occupation is the only basis for progress. Such an era will not dawn if the international community continues to treat Israel as if it had a special dispensation to ignore its international obligations. We call on the British government, acting with its EU partners, to take a leading role in implementing practical measures to ensure Israel's adherence to the convention.

DANIEL MACHOVER
Lawyers for Palestinian Human Rights
London

Green and pleasant

SIR—You ask how prosperity and greenery are related ("Green and growing", January 27th). Yale University's Environmental Sustainability Index is certainly a commendable effort but is too complicated. The environmental intensity of economic activity, increasingly industrial activity, is the variable we have to control. Fortunately, there is a link between this imperative and greenery. The flip side of environmental intensity is eco-efficiency and resource productivity—concepts linked directly to competitiveness and open-market policies. Simple perhaps, but on target. Hard as it may be to accept, the global drive for competitive advantage may have within it a powerful driver toward sustainability—increasing efficiency and productivity.

OWEN CYLKE
Director, The Policy Group US-Asia Environmental Partnership
Washington, DC

Catholic taste

SIR—The sad situation of the Catholic church ("Between this world and the next", January 27th) follows

from the expectation that mere good intentions produce good solutions. On the contrary, what is needed is the application of rigorous and honest intellectual discipline. It has been believed, and still is, that such modish terms as “participation”, “community” and “solidarity” would reinvent the church from the bottom up; and that other terms such as “ecumenism”, “tolerance” and “understanding” would animate a moral and philosophical awareness. It has not happened. What has happened is a marginalisation of the church because it is perceived as both sentimental and authoritarian. It does not teach, it dogmatises; it does not guide, it confuses; it is no longer convincing nor uplifting, it has become an excuse to practice a faith on one’s own terms.

The church has a role to play which goes beyond boldness or prudence and which relates to and is supportive of individuals faced with problems differently defined from even 25 years ago. Contraception is no longer a question of personal morality but is a matter for AIDS and the developing world; abortion is less a question of life than of feminine dignity; euthanasia relates not so much to death and murder as to charity; fears of genetic engineering are not to be exploited, they need a church to provide objective answers. These will not come from “below”; as diktats they will not be accepted.

J. LE CLERCQ
Chazemais, France

SIR—You do not address the main problem of the vast institution that is the Catholic church. It is a most un-Christlike creation. Though founded on the teachings of Jesus it has lost its origins and has become irrelevant and unrecognisable. Jesus has been smothered by droning liturgies, lavish cardinals’ robes, the hierarchy surrounding the “Vicar of Christ” and pagan incense pots swinging down the aisles. If there was to be a second coming, Christ would not fit in at all.

EDWARD RAPP
Greensboro, Georgia

Reflating Japan

SIR—You repeat two common fallacies about reflating Japan’s economy (“Coming out of denial”, February 3rd). First, you claim that bond prices will collapse if the Bank of Japan raises its inflation target. This is not necessarily true, and depends on the difference between the inflation target chosen and the market-clearing real rate of interest, which in a liquidity trap is always negative. An inflation target of, say, 2%, might be too low to bring about a savings-investment balance if Japan’s equilibrium real interest rate is, say, minus 2%. The result would be a short-term interest rate that remains near zero throughout the life of a long-term government bond.

Second, you claim that the Bank of Japan would suffer financial losses if it bought bonds whose yield subsequently rose because of rising inflation expectations. This also is untrue. The Bank of Japan would buy bonds yielding 1.5% with its own freshly minted money, which is a zero-coupon perpetual liability. Held to maturity, this generates a seignorage gain of 1.5% per year.

PETER VON MAYDELL
Hatfield, Hertfordshire

Saving the surplus

SIR—Lexington’s objections to tax cuts in America are theoretically sound but not practical (February 3rd). The reason for separating Washington politicians from a budget surplus is the same as for separating male and female school children on an overnight outing: there is a force of nature involved that does not always lead to rational behaviour.

As Congress goes through a process of “surplus awareness” the excitement will be too much and reason will not be brought to bear on fiscal policy. The problems facing Social Security and Medicare will not be addressed and a myriad of new problems and long-term consequences will be created. “Irrational exuberance” can manifest itself in fiscal policy as well as financial markets. I suspect Alan Greenspan’s convoluted support of a tax cut is a pre-emptive strike.

CHRISTOPHER HELD
Tokyo

Nugget of information

SIR—With BSE and the price-influencing European policy response, the Big Mac index (January 13th) must have lost some of its edge to gauge the competitiveness of the euro. Perhaps this is a good moment to switch to the Chicken McNugget index. Or would that be too reminiscent of the gold standard?

LUC EVERAERT
Washington, DC

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The odd couple

Feb 15th 2001 | JAKARTA
From The Economist print edition

Between them, Abdurrahman Wahid and Megawati Sukarnoputri need to sort out Indonesia. Nobody else can

Get article background

Reuters

WHEN you catch him in good form, it is easy to remember why Abdurrahman Wahid, the nearly-blind Muslim cleric who rules Indonesia, once inspired so much hope. He may be going through the worst days of his 16-month presidency, with angry members of parliament clamouring to impeach him, leagues of veiled women marching to unseat him, and supporters in his power base, East Java, burning down the offices of opposing factions; yet Mr Wahid, leaning calmly across his desk, describes his plight with detachment, a few pearls of wisdom, and the occasional chuckle.

For all his flaws, Indonesia's president can still, at times, provide the sense of perspective that his country desperately needs. After 32 years of kleptocracy and military rule, the collapse of the Suharto regime was always going to be perilous. Those who mastered corruption under the former autocrat continue to dominate in many areas of public life, and they have been joined by a new batch of eager young apprentices. In several areas of the country, the lid has blown off long-suppressed ethnic and religious conflicts. The army and police remain far better at stoking the violence than stopping it. And though the economy has recently regained consciousness, it is too enfeebled by corruption and instability to lift itself off the floor.

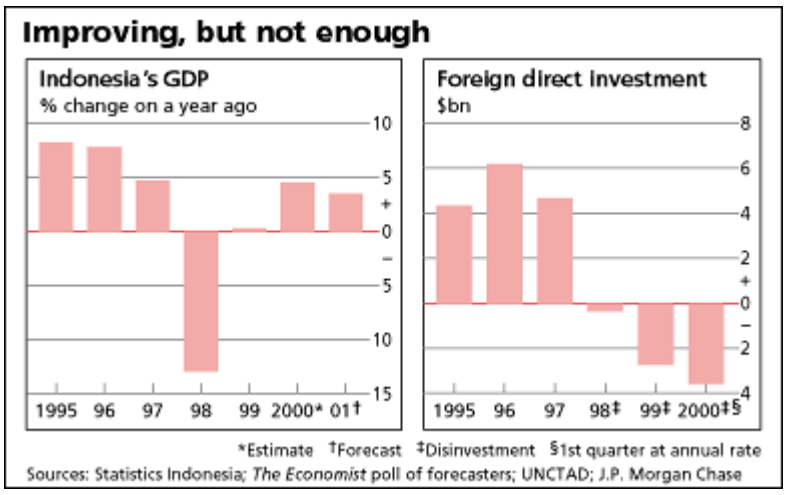
In his better moments, Mr Wahid's way forward is to point out what the bad guys are up to; remind the public why the crooked have become so powerful; insist that things could be better; and encourage ordinary Indonesians to get more involved in reform. In short, he draws on the same liberal, tolerant and long-term approach that he championed when he was head of the Nahdlatul Ulama (NU), Indonesia's—and indeed the world's—largest Muslim organisation.

Unfortunately, as opponents, supporters and innocent bystanders all attest, the man affectionately nicknamed Gus Dur does not have enough such moments anymore. Far from taking a detached view of history, he often treats setbacks as personal slights, lashing out against friends and foes alike. When he draws on his NU resources it is for crude rather than moral authority, to get crowds of supporters out on the streets. Although he says that broad-based democracy must replace one-man rule, he continues to move the pawns around in a quest for tactical advantage. And although Mr Wahid complains that he is beset by rumours and innuendo, he suffers most from his own inconsistent statements, which amount to a propaganda campaign against himself.

Not all these tendencies are new. As the grandson of the NU's founder, Mr Wahid has always been treated with deference, not just by its members but by his aunts, uncles and family friends as well. As one diplomat puts it, "He was born with 40m followers who will support him no matter what." Along with this inheritance, Gus Dur's natural cleverness and broad education have also helped to inflate his ego. Yet his behaviour during the past couple of years, probably influenced by a pair of strokes suffered just before Mr Suharto fell, seems far more erratic than it once was.

This has been shown to most damaging effect in his relations with his vice-president, Megawati Sukarnoputri. The daughter of Indonesia's founding president, Sukarno, she has a devoted following similar to Gus Dur's—but much bigger. Whereas the president's party holds only 10% of parliament's seats, Miss Megawati's PDI-P controls 30%, making hers the largest faction. Since post-Suharto Indonesia is teetering between a presidential and a parliamentary system, and since the two leaders' support bases are similar, his alliance with Miss Megawati is vital to Mr Wahid's survival.

This emerged clearly last August during the annual session of the MPR, an electoral college and constitutional assembly that includes the 500-member parliament. By then, after several run-ins with Mr Wahid, many members of parliament were itching to remove him. But partly for constitutional reasons, and partly thanks to Miss Megawati's support, Mr Wahid survived. In a dramatic break from the Suharto days, Mr Wahid apologised to the MPR, promised to install a better cabinet and agreed to turn over many duties to his vice-president.



That bought him some time. But his opponents—including Amien Rais, an Islamist self-promoter, leader of one of the main coalitions in parliament, and chairman of the MPR—warned him that he had no more than a year to shape up. Moreover, by that time it was already clear that a pair of multi-million-dollar financial scandals would provide the pretext for impeachment when the time came.

Mr Wahid also went on to construct his new cabinet without taking Miss Megawati's advice on appointments, much of which proved to be prescient. Despite his minority government, he has continued to treat parliament as an insignificant nuisance. Most baffling of all, he has prepared himself for this battle not by cementing ties with Miss Megawati, but by insulting her personally in settings where accounts of what he said were bound to get back to her.

Collateral damage

The great fear now is that, if Gus Dur's presidency collapses, he will not be the only victim. Things could still be much worse for Indonesia, the world's fourth-biggest country, and its 210m people. In 1965-66, the period that ushered in Mr Suharto's rule, 500,000 people were killed in Central and East Java in riots in which the NU played a central role. Now, even outside the hotspots of Aceh, Irian Jaya and the Moluccas, the country is racked by vigilante violence and frequent unexplained bombings—the latest being a string of church bombings on Christmas Eve. Since the Indonesian army is distrusted and demoralised, there is no telling how much trouble a political upheaval could cause.

Indonesia's neighbours are clearly worried. This week, Malaysia's deputy prime minister, Abdullah Ahmad Badawi, gave warning of "a new wave of boat people" if things go wrong. The governments of Australia and Singapore have similar fears. Given the difficulties of patrolling the area, Malaysia and the Philippines

also worry that Islamic militants will find it easier to operate in their southern islands. Since much of the world's piracy occurs in Indonesia's shipping lanes, a breakdown of authority could give it free rein. It is easy to see why Colin Powell, America's new secretary of state, has singled out Indonesia as a country that bears close watching.

Even if these nightmares never come to pass, the present difficulties will probably cost Indonesia another year in its efforts to get back on its feet. More than two years after the country's banks collapsed, pledges to sell assets from the bank-restructuring agency, IBRA, continue to go unmet. Such sales would amount to the biggest step Indonesia could take to restore confidence. Yet they remain blocked by political stalemate. Nor is there any clear plan to manage the policy of radical decentralisation, which allows hundreds of corrupt local governments to exercise more control over their own development budgets and, in consequence, to do whatever they please. More political instability will also hamper other efforts to attract investment. And, yet again, fresh assistance from the IMF has been suspended because of stalled reform. This paralysis could easily stretch into the middle of the year. Unless Mr Wahid manages to avert the impeachment effort, that is when the procedure to unseat him will come to a head.

That procedure began last month, when a decision was taken to censure Mr Wahid over the two financial scandals, oneconcerning the national food agency, Bulog, the other concerning a donation from the sultan of Brunei. The scandals occurred last year, after Mr Wahid tried to appropriate funds from Bulog, ostensibly for humanitarian aid in Aceh, at the north-western tip of Indonesia. The president has admitted that he looked into this, but says that he later got the money from the sultan of Brunei, who gave $2m. Shortly after Mr Wahid had approached Bulog, his masseur, Suwondo, arranged an illegal disbursement of 35 billion rupiah ($3.7m at current rates), claiming he was acting on the president's behalf. Mr Wahid says he knew nothing about this.

Although Mr Wahid's story is a little fuzzy, the evidence against him is circumstantial. Nevertheless, parliament voted decisively to accept the report, which accused him of being involved in the Suwondo affair and of misusing the sultan's money. Mr Wahid now has until early May to explain himself to parliament. If it is unimpressed, he gets a second warning, and one more month; then parliament is allowed to call a special MPR session to vote on removing him.

Already, more than 200 MPs seem convinced of Mr Wahid's guilt, or at least of his unsuitability as president. They wanted him impeached at once. Neither Miss Megawati nor Akbar Tandjung, who heads Golkar, the former ruling party, has sanctioned this, since it is in the interests of the two biggest parties to pay some attention to the rules.

Miss Megawati in particular is staying studiously silent. This is partly because she does not want to be compared to Gloria Macapagal Arroyo, the president of the Philippines, who led the opposition's efforts to unseat her predecessor, Joseph Estrada. For although Miss Megawati, like Mrs Arroyo, would probably enjoy the support of the army, that is not a blessing in Indonesia, where soldiers are so discredited.

Mr Wahid's opponents in the PDI-P are convinced that they have a green light to unseat him, but this week there was talk from other quarters of giving him one more chance. He might, perhaps, be asked to yield yet more authority to Miss Megawati in exchange for keeping the presidency.

Mr Wahid's backers argue that there is no evidence that he has done anything wrong and that, at worst, he is guilty only of campaign-finance offences. Parliament is pushing him out, they say, only because MPs dislike his efforts at reform. Mr Wahid has shrewdly played to this sentiment in several ways. He has said that he will respond to parliament's treachery by renewing his drive against corruption, pledging this week to concentrate on ten particular offenders.

Reuters

They want Wahid to go

Moreover, although he denies orchestrating the NU's attacks on Golkar offices in East Java, Mr Wahid has sought to portray this movement as a battle between the old regime (confusingly named the New Order) and his new reformist one. Mr Wahid told *The Economist* this week that his empathy for the NU gangs—he said last week that he "understood" why they were violent—had been misinterpreted. He says that he will do whatever he can to prevent violence, and that he was trying to point out that he agreed with his supporters' attitude towards Golkar only "because I feel the same way".

Mr Wahid's enemies, of course, have reformist arguments of their own. They point out that he has done nothing during the past 16 months to stem corruption or improve the justice system, and they accuse him of meddling unwisely in many government deals, especially those involving tycoons who owe IBRA money. Since Mr Wahid has done nothing to establish accountability, they say, they have their own ideas about which corruption cases to concentrate on: start with the president and go from there.

In the firing line

So is Gus Dur a corrupt president being impeached by a reformist parliament, or a reformist being impeached by a corrupt parliament? In truth, neither description is accurate. To see why, consider two of the decisions that have most haunted Mr Wahid: his sackings of a PDI-P cabinet minister and a well-known general.

Many of the president's problems with parliament can be traced back to a cabinet shuffle last April, in which he sacked two ministers from his economics team. One of those ministers, Laksamana Sukardi, was a trusted adviser of Miss Megawati, and had earned wide respect for taking on the state-owned enterprises ministry. Mr Wahid not only sacked him, replacing him with a loyalist, but botched the explanation horribly, telling parliament—with no proof—that he had removed Mr Sukardi for corruption. This infuriated many of his coalition partners, including Miss Megawati, who guards her clean reputation jealously and did not like the sideswipe at her party.

Mr Wahid's other big personnel fiasco involved his attempt, last year, to establish firmer control over the army by promoting an outspoken junior general, Agus Wirahadikusumah. Shortly after taking command of Kostrad, the army's elite strategic reserve, General Agus revealed an audit that had found widespread corruption in the unit. This did not endear him to fellow officers, who also resented the favour the president was showing him. When Mr Wahid tried to promote him again, the senior generals resisted by lobbying Miss Megawati—and won. In the end, General Agus ended up with nothing and Mr Wahid revealed his impotence. The message was driven home by a decision in the MPR shortly afterwards, allowing the armed forces to retain the guaranteed seats in parliament that they hold as token of their "dual function" in both defence and politics.

This episode was similar, in some ways, to the sacking of Mr Sukardi. The president's supposedly keen tactical skills failed him miserably on both occasions, helping to place him in his current predicament. In the first case, Mr Wahid's opponents were supporting the reformer; in the second, the reformer was supported by Mr Wahid. In both cases, as friends of Indonesia gloomily point out, the reformer lost.

As a result of all this, many advocates of reform are now fed up with all sides. "The elite machinations of Jakarta politics are so flagrant, it's disgusting," says one cabinet minister. Dennis Heffernan, a local consultant and long-time friend of Mr Wahid, is distressed to see the president play into parliament's hands. "Everybody knows they are a bunch of hastily cleaned up New Order creeps," he says, "but Gus Dur is just making it easy for them."

Although he is less of a Gus Dur fan, this sentiment is echoed by Erros Djarot, who was an adviser to Miss Megawati for most of the 1990s before he left in frustration early last year. Mr Djarot derides Mr Wahid as "the president of East Java". But he is just as quick to denounce Miss Megawati, complaining that "the two of them are always blocking us". As for the members of parliament, "They are like hungry dogs hunting fresh meat." A piece of graffiti in central Jakarta captures the mood of the moment: it urges Mr Wahid, Miss Megawati, Mr Tandjung and Mr Rais all to resign.

Reuters

Would Megawati unleash them?

At most, only one of this quartet will be gone in the next few months. With Mr Wahid out of the way, is there any chance that Miss Megawati would improve her performance? In many respects, reassuringly, she would represent similar values to those of Mr Wahid. Unlike the "central axis" of Islamist parties led by Mr Rais, both she and Gus Dur have stood up for a secular approach to life. Since Miss Megawati has never been a Muslim cleric, is a woman, and has been accused of consorting too closely with the ethnic-Chinese minority, she may find it slightly harder to carry this message with authority. And she might well inspire the fragmented Islamist opposition, though it remains weak, to unite against her.

When it comes to the army, Miss Megawati's course is harder to predict. She would probably be less likely to push for structural reforms, such as the repeal of the territorial system that gives the army its widespread political influence. And although some of her ministers might prod the army to clean up its off-budget businesses, that would be a painfully slow process in any case. Miss Megawati's reluctance to interfere in these areas would have little practical effect, since Mr Wahid has had no success there either.

One Indonesia

A Megawati presidency might make a bigger difference to the way the army treats troublemakers. Partly out of respect for her father's legacy, she wants Indonesia to hold on to all of its present territory, and appears to have been vexed by Mr Wahid's willingness to negotiate with separatists. Since her own supporters were among the victims of military heavy-handedness in Suharto's time, she would no doubt urge the generals to maintain some discipline. But if Miss Megawati were to become president, it would probably be the residents of Aceh and Irian Jaya whose lives would change most, and for the worse. She might also turn the army loose on Islamic extremists such as the Laskar Jihad, which has injected itself into sectarian violence in the Molucca islands.

As for economic policy, Miss Megawati has a few good people in her party, including Mr Sukardi. But she also has some bad ones. Like Mr Wahid, she has espoused few economic ideas of her own, and would have to do a lot of negotiating; her chances would hinge largely on whose advice she chose to take. And although she would be unlikely to make progress on corruption, even a start would be good in Indonesia, where the only thing people do openly is lie to journalists.

Will she be willing to topple Mr Wahid? Apart from her gung-ho advisers, many who know her still doubt that she will take the risk. Had she not been so cautious in 1999, she would already be president; she refused to negotiate and ended up as number two. Moreover, there is the small matter of her husband, Taufik Kiemas, who is one of the PDI-P's chief fundraisers. Few people doubt that, should she take over, the searchlights would swivel on to his business activities. Besides, says Mr Heffernan, "The presidency right now is a flaming bag of cow dung. I think she's too smart to touch it."

It is still conceivable that Mr Wahid could work out a deal. On February 14th, he said he needed a rest. He is about to embark on a long trip next week, which will include a pilgrimage to Mecca. Once again, there are rumours of a shuffle when he returns. This time, he could do it differently, listening to his vice-president and installing a cabinet she can live with. But such a deal is getting harder to imagine. Even Gus Dur's confidants admit that he would rather drive a train over a cliff than admit to his old friend that he had been wrong.

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New arms for a new world

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From The Economist print edition

President Bush is promising the biggest shake-up in American defence policy for decades. Good luck to him

"HOORAH!" cheered the camouflaged soldiers, lined up on the freezing parade ground of Cottrell Field, Fort Stewart, Georgia, as President George Bush, on his first trip as commander-in-chief, promised an extra $5.7 billion for military pay and comforts, and $2.6 billion more for research and development. To the cynics, it looked like classic policy-avoidance by photo-opportunity, especially when it turned out that only $1 billion of the money for pay was actually new, and since Mr Bush is asking for only a tiny immediate increase in the defence budget pencilled in for this year by Bill Clinton. In fact, the cynics look wrong.

EPA

That's our boy

Behind the photo-ops, the Bush administration is moving towards what may yet turn out to be the long-promised transformation of the American defence system from cold-war fighting force to the high-tech army of the future.

The constituent parts of this promise do not seem to add up to a huge amount. They are a hurried "strategic review" announced last week to help the new secretary of defence, Donald Rumsfeld, make up his mind what to do (the report is due by the end of March); the appointment to this review of one of the most original military thinkers in America, Andy Marshall, the head of the Pentagon's think-tank; the power wielded in Washington by old defence hands such as Vice-President Dick Cheney and Mr Rumsfeld; and a smattering of drastic-sounding promises by Mr Bush—to slash nuclear weapons, build an anti-missile defence system, and generally "challenge the status quo and envision a new architecture of American defence for decades to come".

There is need for scepticism, since much of the current debate over American defence is driven by a notion that is about 80% fiction. This is that the armed forces face a crisis of recruitment and battle-readiness. Yes, there are a few signs of decay. More than a third of new recruits do not make it through their first term. That compares with an attrition rate of just over a quarter during Ronald Reagan's presidency. The air force is in worse shape than the army or navy, and support aircraft (refuelling planes and so on) are in worse shape than fighters and bombers. But, take it all in all, the picture is fairly good. Serving men and women now have more military experience than in Mr Reagan's day, an average of over seven years' service compared with four in the 1980s. The percentage of re-enlistments is higher than in the 1980s.

The problem lies elsewhere: in America's ageing weapons systems. For the past ten years the Pentagon has been on a procurement holiday. Total spending on national security will be about $295 billion this year and the annual average for the past ten years is $305 billion (in 2001 dollars). That compares with $400 billion in the peak year of 1989.

The defence department has "adjusted" to these reductions in two ways. First, by slimming down everywhere (reducing the number of army divisions from 18 to 10, see table) but not by altering the structure of the armed forces, which remain the same agglomerations of mass soldiery and heavy equipment they were in the cold war. And, second, by not buying any big new weapons systems, sticking instead to the 1980s generation of arms that Mr Reagan built up.

The immediate problem facing Mr Bush's strategic review is how far to go in replacing the old weapons with new technologies developed in the past 20 years. The intriguing longer-term question is whether to combine this weapons modernisation with

the fundamental rethinking of the armed forces' task that the Clinton administration hesitated to carry out in the 1990s.

The cost of the new weapons is immense. The F-22 fighter would cost over $60 billion. The even more powerful Joint Strike Fighter would cost $23 billion in research and development, and $200 billion to produce, making it the most expensive weapon ever. Add to that $65 billion for a new submarine, let alone the proposed anti-missile system, and you are talking real money.

The Joint Chiefs of Staff say that they need $90 billion each year over the next ten to buy all this new armoury. The Congressional Budget Office estimates the cost at a still jaw-dropping $50 billion a year. People in the Pentagon privately argue this is not all that much: if you merely increased defence spending from 3% of national income to 4%, that would do nicely: an extra percentage point is worth $100 billion.

In retreat?
Main elements of America's armed forces

	1990	2000
Army		
Active divisions	18	10
Reserve brigades	57	42
Navy		
Aircraft carriers (active/reserve)	15(1)	11(1)
Air wings (active/reserve)	13(2)	10(1)
Attack submarines	91	55
Surface combatants	206	116
Air Force		
Active fighter wings	24	12+
Reserve fighter wings	12	7+
Reserve air defence squadrons	14	4
Bombers (total)	277	190
Marine Corps		
Marine expeditionary forces	3	3

Source: "Defence Policy Choices for the Bush Administration" by Michael O'Hanlon (forthcoming)

This is a delusion. The problem facing them—and President Bush—is not the cost of the new weapons so much as the Bush administration's decision to push ahead with a $1.6 trillion tax cut. Assuming this passes the Congress, it will change the defence outlook radically. The demands of the Joint Chiefs would then swallow more than half the remaining budget surplus; even the CBO estimate would reduce the surplus by a third.

It seems unlikely that the Pentagon would get as much as it wants, considering that reform of Social Security and Medicare would make huge demands on the remaining pie. As the Brookings Institution's Michael O'Hanlon argues in his forthcoming book, "Defence Policy Choices for the Bush Administration", the armed forces cannot buy their way out of trouble. This is presumably why Mr Bush refused to authorise an immediate increase in the defence budget.

Nor can the forces easily do what the president occasionally suggested on the campaign trail: skip a whole generation of weapons (cancelling, say, the troubled V-22 Osprey tilt-wing helicopter, which keeps crashing) and proceed directly to a "third generation" of weapons. This change, sometimes called the Revolution in Military Affairs, envisions aircraft carriers being replaced by unmanned "arsenal ships" stuffed with missiles, large infantry divisions being replaced by individual soldiers with all manner of high-tech arms, and tanks retiring into history. All these things may one day come to pass. But it could be up to 20 years before that day has fully arrived, a worrying gap after the time when the current lot of weapons become obsolete.

What to do? This is where Mr Marshall and the strategic review come in. Unlike previous, largely ineffectual reviews, this one is in the hands of a genuinely radical thinker. Mr Marshall has called tanks and aircraft carriers "millstones". He thinks American defence focuses too much on Europe and not enough on the geostrategic challenge of China. In the past he has advocated a halfway house between the Joint Chiefs' demand for the whole array of vastly expensive new weapons and Mr Bush's notion of skipping a generation. America, he argues, could cut back on some of its new arms plans while bringing into active service soon a few experimental "third-generation" weapons.

Mr Marshall's willingness to rethink America's defence commitments when there is not enough money to buy everything everybody wants raises other questions. Does America need 40,000 troops in Japan or 70,000 in Germany, which is now surrounded by NATO allies? Does it need 7,000 nuclear weapons on full alert, and three weapons laboratories? Does it even need a "two-war strategy" (the ability to fight two regional conflicts simultaneously)? The promised review may well answer no to at least some of those questions.

If that happened, the result might not be a Great Leap Forward into high-tech warfare. But it could well be the start of a transition that moved America away from its old, cold-war military ideas. Financial, technological and bureaucratic obstacles would remain. But for even beginning to plan for such a transition, Mr Bush deserves credit.

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Bill Clinton's reputation

Muddier yet

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HE HAS always loved the limelight. But perhaps even Bill Clinton is getting a bit tired of all the attention he has been receiving lately. Day after day the former president wins almost as much coverage as his successor—but Mr Clinton's comes with savage barbs and uncomfortable questions.

Reuters

At least they love him in Harlem

Mr Clinton's decision to pardon Marc Rich will probably do more lasting damage to his reputation than his tryst with Monica Lewinsky. The Lewinsky affair produced millions of Clinton supporters, who thought he was being persecuted over a private matter. But even his most sycophantic bag-handlers have failed to come forward to defend the pardon of the fugitive financier.

Roger Adams, the Justice Department official in charge of reviewing pardon applications, has told the Senate Judiciary Committee that "none of the regular procedures...were followed" in Mr Clinton's pardons of Mr Rich and his partner Pincus Green. The House Government Reform Committee has issued subpoenas intended to uncover any possible links between contributions to various Clinton causes (particularly by Mr Rich's former wife, Denise) and the pardon. Mr Clinton promises to co-operate with any "appropriate" inquiry.

With the continuing scandals beginning to affect the ex-president's earning power (UBS Warburg has quietly scotched plans to hire him to speak at an investment conference in April), Mr Clinton is scrambling to repair his reputation. He has not only returned a small treasure chest of furniture and finery to the White House. He may also move his future presidential office from midtown Manhattan to the heart of Harlem.

This last move suggests that the former president has not entirely lost his touch. Mr Clinton was greeted by a huge crowd shouting "We love you" when he visited Harlem this week. Harlem is an advertisement for one of Mr Clinton's best policies: creating economic empowerment zones to revive decaying bits of America's inner cities. And blacks have always been Clinton loyalists, growing even more enthusiastic when the white establishment turns against him.

Mr Clinton still has to cut a deal with the city's Republican mayor, Rudy Giuliani (who once prosecuted Mr Rich), to persuade him to relinquish a lease on behalf of the city's child-welfare agency. But Harlem could be an ideal base for Mr Clinton's attempts to rehabilitate himself. It would be especially handy if he were to run for mayor of New York.

Some of his critics may be in danger of overplaying their hands. Talk of impeaching the ex-president could revive suspicions of a "vast right-wing conspiracy." (George Bush has been careful to insist that "it's time to move on.") And some of the cash-and-carry charges have been exaggerated. Borsheim's, the store at the heart of Giftgate, denies an allegation that Hillary Clinton set up a secret registry of goodies. All the other living ex-presidents helped themselves to some "personal" effects from the White House—and all live pretty comfortably. Ronald Reagan (who once made $2m for two 20-minute lectures in Japan) let some rich friends buy him a $2.5m house in Bel Air.

So far it still looks as if Mr Clinton can easily survive a few questions about his taste for White House loot. But the Marc Rich pardon looks dodgier by the day. That will test even Mr Clinton's powers of recuperation.

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Politics in Massachusetts

Queen Jane

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IS IT really so awful to be the governor of Massachusetts? You might think so, given people's tendency to quit the post prematurely. Four years ago the Republican Bill Weld, explaining that he was bored with running the state, skipped out to lobby unsuccessfully for the ambassadorship to Mexico. Now Mr Weld's hand-picked successor, Paul Cellucci, has been offered the ambassadorship to Canada.

AP

First of her kind, plus twins

Lieutenant-Governor Jane Swift will thus become the state's first female governor. She faces an unenviable mixture of troubles: hostile public opinion, a state legislature full of rivals, a slowing economy. What's more, she is pregnant. With twins.

To be the first governor in the country's history to give birth while in office might count as an honour elsewhere. But Massachusetts, despite its liberal reputation, has trouble with women in high office. And it does not seem to like Ms Swift much.

That may be partly because she has been lieutenant-governor to Mr Cellucci. She therefore shares the blame for some high-profile mishaps, notably "the Big Dig", a massively disruptive and costly road project in Boston. Mr Cellucci's recent victory, a $1.2 billion state income-tax cut, threatens to cause problems if the economy goes into recession. Mr Cellucci's challengers were already lining up for the 2002 election.

But "Queen Jane" also has problems of her own. A year ago there was a row because she had asked aides to baby-sit her infant daughter—she is married to a man called Chuck Hunt—as well as using a state helicopter for her personal use and accepting a large salary for a teaching job that took little effort. Some of these things, done by a man, might have been more easily forgiven. But Ms Swift would not apologise, and "Queen Jane" was born.

She is, to be sure, only 35 years old. She comes from western Massachusetts, where people are pretty blunt. She has admitted to feeling out of place in the male, Irish-Catholic, Boston-centred State House. Mr Cellucci chose her as his running-mate two years ago, partly in order to attract young female voters. She also happened to be pregnant during the campaign, which won lots of publicity and helped to keep the campaign civilised.

Ms Swift's new pregnancy could buy her a little time. The state's legislators will not want to look as if they are bullying her, argues Geri Denterlein, a Democratic sympathiser. A lot of female voters may like a governor who works but also has a family life. Ms Denterlein has helped to organise breakfasts for women from both the big parties who, she says, found the Republican Ms Swift more impressive than they had expected. But few ordinary voters will get the chance to breakfast with Queen Jane. And there will be limits to the chivalry extended by the male-dominated State House.

In short, Ms Swift has a chance, but not a particularly big one. Much will depend on whether she has learned from her mistakes. And there is always a chance that the Democrats who will want to challenge her in next year's election will get so involved in fights with each other that they will not have much time to attack the lady governor.

Still, Ms Swift takes office under critical eyes. "I don't know that there will be a huge margin of error," Ms Denterlein says. History is also not auspicious. The best-known Queen Jane—the wretched Lady Jane

Grey—lasted a mere nine days on the throne before the nobles sent her packing, and eventually to her execution.

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Lexington

Life in the wilderness

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SO THERE is something worse than losing big, after all: losing small. A month ago Democrats confidently predicted that George Bush would be a president without power—or, at the very least, a president who would have no choice but to drop his most controversial policies at the mere whiff of Democratic displeasure. Since then, Mr Bush has forced John Ashcroft into the Justice Department and transformed his big tax cut from a corporate fantasy into a near-inevitability. Now it is the Democrats who seem to be powerless, and Mr Bush who is steamrollering his entire agenda, bells and all, through Washington. What went wrong?

The Democrats' first problem is that they don't know whether they won or lost in November. One moment Terry McAuliffe, the party's new chairman, insists that if Florida's Katherine Harris and the federal Supreme Court had not tampered with things, Al Gore would be in the White House and John Ashcroft would be at home reading *Southern Partisan* magazine. The next moment Maynard Jackson, Mr McAuliffe's defeated rival, points out that, over the past eight years, Democrats have lost the White House, both houses of Congress, a majority of governorships and the bulk of their advantage in the state legislatures. (He passed over the further dismal fact that the Republicans will almost certainly gain seats in the House in the next redistricting.)

This confusion about what happened in November makes it all but impossible to agree on a plan of action. The great thing about losing big is that you all know that you have to change your ways. But, if you draw, you tend to split: one half of the team thinks you should change direction, the other insists you should put your foot on the accelerator.

The New Democrats argue that Al Gore threw away an easy victory by concentrating on class warfare rather than sticking to Bill Clinton's winning formula of fiscal responsibility and smaller, but still activist, government. The traditionalists retort that Mr Gore not only won the popular vote by 500,000: he won far more votes than Mr Clinton ever did. Mr Gore brought an unprecedented turn-out in the party's core constituencies, blacks and women. But he also managed to capture the heartlands of the new economy, including California, New York and many of the country's toniest suburbs. The only reason he "lost", they explain, was that Mr Clinton's serial self-indulgences played so badly in Peoria.

A few days after Mr Gore conceded the election he asked for a meeting with Mr Clinton, and told him in "uncommonly blunt language" that his personal behaviour had damaged the Gore campaign. But mostly the squabble is conducted behind the scenes. The Clintonites complain that Mr Gore ran the worst campaign in living memory; the Goreites retort that Mr Clinton besmirched the whole party. Mr Clinton has retained control of the Democratic National Committee, through Mr McAuliffe. But Mr Gore is clearly preparing himself for another run at the presidency: why else would he choose to teach in New York and Los Angeles, the two richest sources of Democratic money in the country, and Tennessee, the home state he so embarrassingly lost?

The Democrats are also divided on another key issue: how to oppose Mr Bush. The party's hard core argues that they should treat him as an illegitimate usurper. Protesters lined the streets on Inauguration Day waving banners proclaiming "Hail to the thief"; Democratic interest groups denounced John Ashcroft as a racist, homophobic, Confederate-sympathising nutcase. But more moderate Democrats are nervous

about such crude confrontationalism, recalling what happened to Newt Gingrich when he tried to go head-to-head with the president and pointing to opinion polls which show that the majority of people want a return to civility in Washington. The result is a yet more split Democratic personality. One moment members of the Black Caucus are marching in the streets; the next they are cosying up to Mr Bush in the White House, creating another Republican photo-opportunity.

Plainly, the Democrats are suffering from a bad case of White House withdrawal. The presidency, in Mr Clinton's hands, not only provided them with the country's most powerful bully pulpit over the past eight years; it also gave them access to the huge brain-power of the federal government. To make it worse, Mr Bush is proving astonishingly adept at using the White House to both embrace and divide the Democrats.

This goes deeper than wooing Democrats with cute nicknames and party invitations. Mr Bush has been skilful at raiding Democratic think-tanks for ideas. He has also been skilful at shaping policies which have a good chance of setting Democrats at each other's throats. His education reforms could turn mainstream Democrats against the teachers' unions (which make up much of the party's bedrock support). His emphasis on faith-based reforms could set the party's heavily black religious wing against its college-educated secular wing.

So can George Bush sit back and prepare for eight easy years in the White House? Far from it. Start with a simple fact: the Democrats and the Greens, taken together, won over 3m more votes than the Republicans. The Democrats drew even in the money race, amassing as much soft money as the Republicans for the first time ever; they also succeeded in making important advances in suburbia, despite Mr Gore's left-leaning campaign. Mr Gore won the Philadelphia suburb of Montgomery County by 30,000 votes, a district Michael Dukakis had lost by more than 60,000 in 1988.

Moreover, the Democrats are only one seat away from taking over the Senate. As majority leader, Tom Daschle could make life very difficult for Mr Bush, just as George Mitchell made it difficult for his father. Even the recent scandals involving Jesse Jackson and Mr Clinton could help the party, by preparing the ground for a new, less tainted, generation of leaders.

The Democrats will undoubtedly be condemned to wander in the wilderness for some time to come. But if they can rediscover their old aptitude for the politics of opposition—and, above all, if they manage to dredge up the right lessons from the murky electoral swamps of Florida—they stand a good chance of turning a narrow defeat last November into a sustained majority next time.

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The mid-west's economy

Down, not out

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How does America's economy look from the country's heartland?

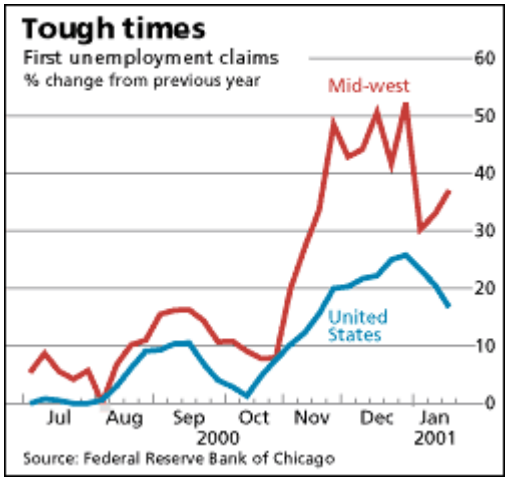
USUALLY, Chicago loves to proclaim the architectural glory of its soaring skyscrapers. Now, it looks glumly at the rather banal office block which serves as the headquarters of Montgomery Ward. In December, after 128 years, the retailer announced that it was filing for bankruptcy. Some 450 members of its head-office staff lost their jobs immediately. The 28,000 people it employed in its shops and distribution system await their fate.

Reuters

When the production line wobbles

In retrospect, Montgomery Ward's mistake may have been to assume that retailing was an art that only people who lived near Lake Michigan could understand. It spent so much time competing with its fellow Chicagoan, Sears Roebuck, that both failed to notice the growth of Wal-Mart. But the coup de grace was delivered by the American economy: sluggish Christmas sales get the blame for Montgomery Ward's demise.

The end of Montgomery Ward is a harsh reminder to the mid-west that America's current economic problems are not just a matter of plunging technology shares out in California. The Chicago Fed's figures show a sharp rise in unemployment insurance claims in December (see chart). Energy costs have also hit hard: some mid-westerners' heating bills have nearly doubled in a year.



For all this, the region seems pretty confident that the economy can still bring off a soft landing. Once dismissed as the "rustbelt", the mid-west has reinvented itself over the past decade. That includes bringing in new high-tech businesses (some of which are now in trouble; two other big recent job-cutters are Lucent and Motorola). But the mid-west's real achievement has been to make its old businesses, particularly manufacturing, much more productive. Chicago's Mayor Richard Daley revels in the fact that one in every six jobs in the city is in manufacturing. Manufacturing is nearly twice as important to the mid-west economy as it is to the national one.

The driving force has been the car business. But last year sales figures dived for Detroit and inventories started to climb. Local suppliers to Ford, General Motors and DaimlerChrysler have all felt the consequences: Tenneco Automotive, with its headquarters in affluent Lake Forest, just north of Chicago, recently announced that its North American revenues were 11% down in the fourth quarter of last year compared with a year earlier. The company's chief financial officer, Mark McCollum, expects this to be another difficult year, even though the company began to reduce costs early, cutting jobs in sales, marketing and administration as early as last September. Several factories have been "flexing down", sending workers home without pay or making them take holidays.

Yet Mr McCollum is not despondent. He argues that a downturn was inevitable after the boom of the late 1990s: indeed, he says, there was almost a sense of relief when it finally came. Jim Gidwitz, the boss of Continental Materials Corporation, a family-run firm in downtown Chicago, takes broadly the same line. As yet, there has been only a modest softening in the sectors in which Continental Materials operates (principally construction, and the manufacture of heaters). But he regarded the Fed's cut in interest rates

on January 3rd as ominous.

Over at Sears, the chief financial officer, Jeff Boyer, blames energy prices and interest-rate rises during the first half of 2000 for the slowdown in his company's clothing sales towards the end of the year. Sears reckons that it takes six months for interest-rate changes to feed through into its customers' spending patterns, so Mr Boyer is hoping for a corresponding pick-up in the second half of this year in the wake of the Fed's recent monetary easing.

Why is this downturn so difficult to read? Globalisation provides one answer. The downturn in Tenneco Automotive's American business (more than half of the total) has been partly offset by better sales in Latin America and Europe. Even among American customers, the downturn seems to be patchy. Giddings & Lewis, a machine toolmaker based in Fond du Lac, Wisconsin, says that many big manufacturers are holding back on capital-equipment purchases. But the firm's chief executive, Stephen Peterson, points to cheering signs of a growth in orders from the energy industry and in orders for portable generating equipment from dotcom companies.

Flexibility is another confusing factor. As companies get leaner and better informed, they are much quicker to take action. When DaimlerChrysler decided on production cuts for some models in January, it took Tenneco Automotive just one day to work out what the implications would be for its business. Mr Gidwitz predicts that the downturn will be much more V-shaped than before, with companies responding more rapidly both to the slowdown and to any recovery.

The most confusing signal of all, though, seems to be the labour market. Unlike previous downturns, this one has seen unemployment remain, so far, relatively low: the national rate rose only slightly in January to 4.2% (though it is higher in some parts of the mid-west, and currently stands at 4.8% in Illinois). Brachs, a confectionery company, recently took Chicago by surprise when it announced the closure of its local factory. But Bill Strauss of the Chicago Fed points out that job losses in manufacturing are not a new phenomenon. Many layoffs, such as Tenneco Automotive's cutbacks in marketing, would have happened anyway as corporate restructuring ploughs on.

In short, the mid-west's industrialists are no surer than the nation's economists or the politicians in Washington whether America is heading for a recession. The real test, suspects Mr Gidwitz, will be when "the sleepless nights come, the red ink starts to flow, and the banks come knocking on the door."

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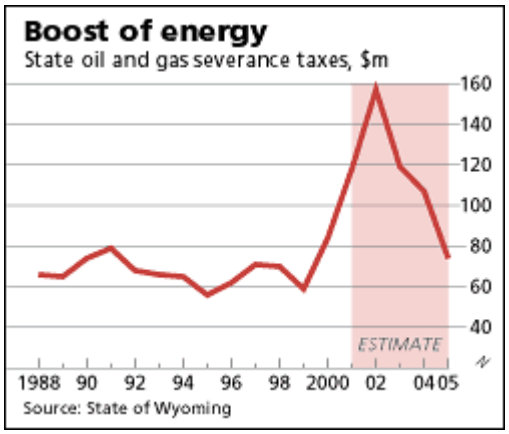
Wyoming's foot on the gas

Feb 15th 2001 | SHERIDAN
From The Economist print edition

AS POLITICIANS in the industrial mid-west ponder a bout of economic sobriety, their counterparts in a Rocky Mountain state are at last pouring out the champagne. With its native son Dick Cheney in the vice-president's house, and natural-gas prices shattering records, the state of Wyoming is flying high.

The economic boom of the 1990s stopped cold at the Wyoming border. While its neighbours, especially Colorado and Utah, were thriving, Wyoming saw the slowest economic growth of any Rocky Mountain state. Before the recent upswing in energy prices, the state government expected a budget shortfall of $183m. But now it has a glowing $700m surplus, thanks mostly to a quintupling of natural-gas prices in the past two years.



The Cowboy State is used to being out of step. For Wyoming, the Great Depression started in 1920, and left its general fund overdrawn by $1m. In 1968, after the United States had enjoyed a long economic expansion, the state's then governor, Stanley Hathaway, discovered that Wyoming had only $80 in the general fund. More recently, Wyoming would have found itself broke by 1990, but for payments from the federal government and prodigious sums squirrelled away in trust funds during a decade of high energy prices from 1973 to 1983.

The current flush of cash comes mostly from soaring "severance tax" collections on oil and gas production, which jumped from $69m in 1998 to an expected $157m in 2002. Roughly 1.5% of all severance taxes goes into a permanent trust fund. Last year this put $117m-worth of interest into the state's general fund.

What to do with the unexpected income has divided the politicians. Poor for most of its 111 years, Wyoming loosens the purse-strings reluctantly. It remembers with dismay that the $800m surplus it had in the early 1980s had all been spent within three years. In his state-of-the-state address, Governor Jim Geringer reminded his audience of a bumper-sticker commonly seen on Wyoming vehicles in the 1980s: "Dear God, please give us one more boom. This time we won't screw it up."

Yet the pressure to make up for 15 thin years is strong. For all its wonderful countryside, Wyoming is poor at creating the sort of jobs that might persuade younger, thrusting types to move to the state. This was the only Rocky Mountain state to have less than a 10% population expansion from 1990 to 2000. The largest private employer in Wyoming is Wal-Mart. Many of the state's oil and gas jobs tend to be temporary ones, and its workers are ageing fast. A recent state report gloomily predicted that the main labour force (aged 25-44), which has already declined from 148,446 in 1990 to 134,480 in 1998, will level off in 2008 at a mere 126,560 persons.

A particular worry is the brain drain. Albany County, home of the University of Wyoming, lost 5.6% of its population during the 1990s, a reduction shared by other university towns in the Plains states, such as Grand Forks in North Dakota, Vermillion in South Dakota and Manhattan in Kansas. Wyoming's teachers rank 42nd in the country in the pay they earn, and the state's only four-year college, the University of Wyoming, has a total endowment of $141m. The University of Texas at Austin, also with its roots in gas and oil money but more recently enriched by software and computer money, has an endowment of $2 billion from private donations alone.

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When sheriffs go wrong

Feb 15th 2001 | DECATUR, GEORGIA
From The Economist print edition

AP

IT IS a cinematic cliché: the swaggering, untouchable sheriff, gouging local businessmen, shooting people down, lording it over convicts. But in DeKalb County, in Georgia, it is not just a figment of the silver screen. All the past five sheriffs of this suburban county near Atlanta have been accused of corruption or abuse of office. Two of them have killed people outside the line of duty. A sheriff-elect, who promised to clean up things, has himself been killed.

Now DeKalb must elect a new sheriff, in a special election on March 20th. Eight candidates have put their names forward, including several would-be reformers. None of them seems likely to succeed in cleaning up the sheriff's office.

That was just what Derwin Brown had promised to do before he was shot 11 times outside his home on December 15th. Mr Brown would have become sheriff two weeks later, having won election to the job on August 8th. Suspicion immediately fell on the 40-odd employees of the county jail (about a tenth of the total) whom Mr Brown had pledged to fire when he took office. A grand jury and the entire 18-man staff of the DeKalb police force's homicide division are investigating his "assassination", but have little to show for it so far.

Those looking into dodgy dealings at the county jail, on the other hand, have had a field day. Sidney Dorsey, the incumbent Mr Brown defeated in the election, is accused of sending deputies to work at his private security firm at the county's expense and inmates to work on a building project run by his wife, an Atlanta councillor. He hired his daughter as his spokesman without seeing any other candidates.

That still pales compared with what his predecessors were up to. One got a contractor at the county jail to pass him wads of cash stuffed into styrofoam cups over the table at a local restaurant. Another had himself chauffeured around in patrol cars. Yet another was convicted for demanding a 5% pay-off on all bail bonds paid at the jail. As DeKalb has changed beyond recognition from a rural white county to an increasingly suburban and black one, the one constant has been the scandals in the sheriff's office.

The problem is neither that DeKalb is a peculiarly corrupt place nor, as one beleaguered sheriff claimed, that the media are conspiring against the office. The real trouble is that the sheriff, as an elected official at the top of his chain of command, is entirely unsupervised. The county commissioners supply his budget, but cannot fire him. A sheriff can lose his job only by committing a felony or by falling foul of an investigating commission of fellow sheriffs—or, of course, by losing an election.

Some county commissions (including DeKalb's) have tried to get round this problem by creating a new, subordinate police department and cutting the sheriff's budget. In theory, that leaves the sheriff nothing to do but run the county jail. But there is still room for corruption in the jail, and nothing to stop the sheriff taking on any other work he feels like. The last DeKalb sheriff set up an anti-drug taskforce, to the impotent fury of the county police.

There have been calls to abolish the office of sheriff. The Georgia Sheriffs' Association replies that its members' traditional powers can be revoked only by law. Georgia's state legislature, which would have to approve any change in sheriffs' status, is dominated by members from rural districts. In these areas, the sheriff, as the most prominent local official, can make or break an election campaign.

No wonder, then, that so many candidates are competing to fill the vacancy in DeKalb. The acting sheriff has given up his job as boss of the county police to run for the post. Another hopeful says the late Mr

Brown appeared to him in a dream and told him to run. The dead sheriff's wife, who considered a bid herself but did not apply, said that none of the other candidates would do justice to her husband's legacy. The cinematic saga is not over yet.

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A hug in the Colombian jungle

Feb 15th 2001 | BOGOTA
From The Economist print edition

President Andres Pastrana and the left-wing FARC rebels have been talking. There's a long way to go yet

Get article background

EPA

Marulanda gets eight more months

"SLEEPING with the enemy", the press called it. Looking slightly lost in a sea of rebels toting guns, there was Andres Pastrana last week, photographed during two days of intensive talks in the sweltering village of Los Pozos. He had dared to visit the piece of southern jungle, the size of Switzerland, that is controlled by Colombia's largest guerrilla group, the Revolutionary Armed Forces of Colombia (FARC). After a period in which Colombia's efforts to achieve peace had swayed on the brink of collapse, President Pastrana and the rebel leader, Manuel Marulanda, were talking again.

Mr Pastrana's audacity was roundly applauded, but there was less enthusiasm for what he managed to achieve. The upshot of the talks, on February 9th, was a 13-point agreement rich in well-meaning but vague suggestions. The firmest point was that the FARC agreed to restart peace talks, and at a faster pace. In return, Mr Pastrana extended for eight months the FARC's control over its enclave, which was granted two years ago to get peace efforts going.

A subcommittee of the negotiating team will be set up to prevent the breakdown of negotiations in the future, and there was talk of establishing a group of observers, perhaps including foreigners, to ensure that the zone was used only for talks and not for such activities as under-age troop recruitment. Another subcommittee will look at ways to reduce the intensity of the conflict, especially the use of improvised gas-cylinder mortars. Last weekend Jorge Briceño, the FARC's military commander, admitted for the first time that such weapons have killed civilians, and said that the FARC was "investigating the possibility" of using such weapons only against military targets.

Then there is Plan Colombia, which is designed to eradicate cocaine production. The FARC wants the military side of Plan Colombia, to which the United States is contributing $1 billion, scaled down in favour of programmes to wean poor farmers off growing coca. But the government has been pushing ahead with fumigation in the southern jungle province of Putumayo, spraying some 25,000 hectares (nearly 100 square miles) of coca plantations from the air between December 19th and February 1st. Most of that was in areas controlled by right-wing paramilitaries. The next stage of spraying will be in FARC-controlled areas. The aim is to cut the FARC's drug income and force it to take the peace efforts more seriously. But tensions may well rise again.

The biggest stumbling-block to peace may be the paramilitaries, who terrorise and murder anyone suspected of supporting the guerrillas. It was the government's failure to rein in the increasingly powerful Self-defence Union of Colombia (AUC) that caused the FARC—or so it said—to break off talks last November. Carlos Castaño, a warlord whose operation fans out from a mountain lair in northern Colombia, has built the AUC into a force of as many as 8,000 men supported by landowners, business interests and drug traffickers. Some army officers collude with it. It is believed in some quarters that, if the AUC becomes too isolated as a result of an anti-paramilitary drive, it will shrug off the shackles of its backers and develop its own bloody momentum.

In the first sign that the army command recognises the political costs of being associated with such unsavoury allies, a military tribunal on February 12th convicted a former army general in a human-rights case. General Jaime Uscategui was given a 40-month sentence for failing to prevent a massacre of civilians by paramilitaries in the southern town of Mapiripan in 1997.

The picture of a dovish president pulled in opposite directions by thugs on both right and left is not entirely accurate. The army, for example, has become stronger since Mr Pastrana came to power. It is true, though, that he is under great pressure to produce results, and few analysts believe he can achieve them.

Parallels are already being drawn between Mr Pastrana and Israel's former prime minister, Ehud Barak, whose search for peace eventually alienated an exasperated public and played into the hands of a hawkish successor. In Colombia, Alvaro Uribe is the name to watch. A right-winger who displays far less tolerance for the FARC than Mr Pastrana, his hardline views have earned him some support as a possible candidate for the presidential election in 2002.

But even if a deal with the FARC proves elusive, Mr Pastrana may get a consolation prize. The government recently announced a "pre-accord" with the left-wing National Liberation Army (ELN) to set up another, smaller demilitarised zone for talks. The ELN will be allowed to convene in a 400,000-hectare area near the oil town of Barrancabermeja as long as it promises to stop kidnapping and intimidating local people, who are weary of violence.

An incessant paramilitary campaign has pushed the ELN into a corner, adding to the group's enthusiasm to negotiate. It may be here that Mr Pastrana's best hopes of ending his term with a peace deal lie. He can leave his successor, whoever he may be, to deal with the FARC—either at the negotiating table, or on the battlefield.

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Brazil

Flu you can use

Feb 15th 2001 | BRASILIA
From The Economist print edition

A NASTY bout of flu kept President Fernando Henrique Cardoso in bed for much of the week leading up to the elections for presidents (ie, speakers) of the two houses of Brazil's Congress on February 14th; or so his staff said. Whether it was real flu or the diplomatic kind, it enabled Mr Cardoso to avoid getting involved in an undignified scramble for power that might have torn apart his loose centre-right coalition.

The presidents of the Senate and the Chamber of Deputies have considerable control over their agendas, and thus enjoy both power and publicity. This means the jobs are always worth fighting for. But this time the elections had become part of a wider struggle for space within the coalition between the leaders of two of its three main parties: Antonio Carlos Magalhaes of the conservative Liberal Front (PFL) and the man he was desperate to stop from succeeding him as Senate president, Jader Barbalho of the catch-all Brazilian Democratic Movement (PMDB).

The two have been slinging mud at each other for months, but it got thicker once the election campaign was under way. After a book was published questioning Mr Magalhaes's wealth and implying corruption, he accused Mr Barbalho of being behind it and rushed out a book making similar insinuations about his rival. Next, Mr Magalhaes's candidate in the lower house, Inocencio Oliveira, claimed that his home telephone had been bugged, but was later suspected of planting the bug himself to gain sympathy. Then, in an echo of Peru's recent political scandal, taped conversations were released to the press. They seemed to involve a group of deputies who had recently left the PFL for the PMDB, suggesting they had been bribed to defect.

Mr Magalhaes's hopes were made slimmer by the fact that, in the Senate, the PFL had no candidate to put up against Mr Barbalho. On the day, not only did Mr Barbalho win the presidency of the upper house, but Mr Oliveira lost in the lower house to Aecio Neves, of Mr Cardoso's Social Democrats (PSDB). The normally wily Mr Magalhaes had miscalculated: by attacking Mr Barbalho so fiercely he managed to unite the faction-ridden PMDB behind his candidacy, and also prompted it to strike a pact with the PSDB in which it supported Mr Barbalho in return for PMDB backing for Mr Neves.

Given the allegations against Mr Barbalho, Mr Cardoso is bound to be uneasy at seeing him running the Senate. And though Mr Neves is of the president's own party, he is from its pinkish, interventionist wing. But things could have been far worse for Mr Cardoso: if he had risen from his sickbed to try to impose more loyal candidates, he would probably have failed. Moreover, if the PMDB had turned out to be the big loser, it might have gone into opposition and invited Itamar Franco—Mr Cardoso's predecessor and now bitter foe, currently the governor of Minas Gerais state—to rejoin the party as its presidential candidate. As it was, the party that did lose, the PFL, was clearly seen to have brought its fate on itself, so Mr Cardoso will not have to try so hard to mollify it.

In fact, Mr Cardoso has a reasonable chance of winning co-operation from both Mr Barbalho and Mr Neves, and of soothing Mr Magalhaes (for instance, by reminding him that his party still has about 80 posts in the federal government, including the vice-presidency and two ministries). So between now and the presidential election in late 2002 he may make progress on some of the further reforms Brazil needs to sustain growth. Mr Cardoso's coalition, born out of the inflation-busting policies he launched as finance minister in 1994, has already lasted longer than he might have hoped. With the economy looking stronger (growth last year, at 4.2%, was higher than the government's own estimate), the coalition may yet last long enough for him to regroup it next year round his chosen successor.

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Boom bye-bye batty-boy

Feb 15th 2001 | PORT-OF-SPAIN
From The Economist print edition

THIS week, on St Valentine's day, a mass nude wedding took place at Hedonism III, a holiday resort in Jamaica. It was touch and go. "Indecent", thundered the outraged mayor of Spanish Town: "No government should allow this type of behaviour in a country guided by Christian principles." It was "begging for the wrath of God," said a prominent Pentecostal leader.

Jamaica markets itself as a free-and-easy place, but when it comes to sexual mores it can be startlingly prudish. The same is true of most other Caribbean countries, and it shows up particularly in their laws relating to homosexuals.

Most English-speaking islands threaten their gay male citizens with imprisonment. The laws are rarely enforced, but they matter. Police may ignore crimes if the victim is gay, and therefore a "criminal" too. Dance-hall lyrics in Jamaica seem to encourage the taunting and violence gays often encounter there: "Boom bye-bye in a batty-boy head," is a refrain that means, "Shoot a gay man."

Many Caribbean politicians privately admit that their laws are antiquated. But if they say so in public, the reaction can be fearsome. Dominica's attorney-general, Bernard Wiltshire, dared hint in December that his island's laws were unfair. He has been cruelly pilloried in the press, on radio and in Carnival calypsos.

Most politicians court easy popularity. "Nobody ever sing 'Boom bye-bye' for me," says Jamaica's elderly opposition leader, Eddie Seaga. "I am not one," says the prime minister, P.J. Patterson: "We have no intention whatsoever of changing those laws." In Trinidad, an anti-discrimination law has been carefully crafted to exclude sexual orientation. A constitutional amendment outlawing discrimination, including the sexual-orientation kind, was unanimously passed in Guyana last month, but the president will not sign it and it is likely to lapse.

A handful of Caribbean countries have had to change without debate. On January 1st, in line with its obligations under European human-rights treaties, Britain reformed the laws of its five tiny Caribbean Overseas Territories. They must now stop treating homosexuals as criminals. Church ministers in the Cayman Islands are getting up a petition in protest, but they do not expect Britain to listen.

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Mexico

How tough can Fox be?

Feb 15th 2001 | MEXICO CITY
From The Economist print edition

THROWING his weight around is not something that Mexico's new president, Vicente Fox, has had to do much. Since taking over the country in December after 71 years of rule by the Institutional Revolutionary Party (PRI), he has handled delicate situations, such as the budget talks and an electoral squabble in the state of Tabasco, with a mixture of quiet diplomacy and patience. It has worked well—up to now. Another electoral dispute, this time in the south-eastern peninsular state of Yucatan, is giving Mr Fox the first real test of his authority.

It started in October, when opposition parties in Yucatan complained that the PRI-dominated state congress had packed the electoral council, which will run this May's election for the state's governorship, with PRI sympathisers. The federal electoral tribunal, a sort of electoral supreme court, agreed, and ordered the congress to pick a new council.

That in itself was unprecedented. During PRI rule, the tribunal had been little more than a tool of the regime. Yucatan's state congress obeyed the electoral tribunal and chose a new council, but the opposition said that it was just as loaded as the first one. The tribunal agreed again, and in December named a new council itself and ordered the original councillors to hand over their offices and resources to the new ones.

They refused. Rowdy PRI supporters barricaded themselves into the council's offices. Yucatan's quixotic PRI governor, Victor Cervera, rallied his followers with stirring speeches in the plaza of the state capital, Merida, denouncing the federal government's attempts to trespass on the state's sovereignty. The federal government threatened to send in its police to retake the council by force if it was not handed over by the tribunal's deadline of February 10th. But as that deadline passed, and then another, it became clear that Mr Fox's resolve was not quite as strong as he had suggested.

No wonder. After seven decades of a system in which presidents had almost total power, it does Mr Fox no good to appear authoritarian. Particularly not now, when he is trying to resolve the long-running guerrilla conflict in the state of Chiapas with a softly-softly approach, and has George Bush dropping by for a visit on the 16th.

Yet it does him no good to appear weak either. The PRI still rules in 19 of the 31 states (excluding the capital). Mr Cervera is not the first to try his luck—the row in Tabasco was over the attempt by that state's outgoing governor, Roberto Madrazo, to twist the election in favour of his chosen successor—and he will probably not be the last. PRI presidents used to resolve disputes between the states and the centre by deal-making, but Mr Fox has to rule, or at least look as if he is ruling, in a legal and upright fashion.

Mr Cervera is no stranger to playing around with the law. Although governors are supposedly limited to one six-year term, he has contrived to notch up a total of ten years, on and off, in Yucatan's seat of power by haggling with PRI presidents. He is famous for handing out thousands of bicycles and washing machines, supposedly on credit, to loyal supporters. He is a classic example of the old-style regional strongmen who flourished under the PRI and, though few are quite as blatant, he would set an uncomfortable precedent if he won a showdown with Mr Fox's government.

On February 15th, the federal government had backed away from its threat to send in the police. Mr Cervera and his supporters have said they may accept a fourth electoral council, formed by some sort of consensus. The upshot for Yucatan may be the same. But for Mr Fox it would be a tacit admission that he cannot yet make Mexico's laws and institutions work as they should.

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Chile

What help for the temporeras?

Feb 15th 2001 | SANTIAGO
From The Economist print edition

IT IS harvest time in Chile, and an estimated 400,000 temporary workers, over half of them women, are helping to pick and pack. Fresh fruit is Chile's third-biggest export industry, after mining and forestry. Much of the Chilean countryside could nowadays pass for part of California, covered with artificially irrigated vineyards, trim orchards and modern packing plants. All these have brought new jobs for farm labourers, their wives, their children and, at harvest time, for women bused in from poor urban areas to operate the packing plants.

The *temporeras* are proud of their skills and of their contribution to an industry that has brought new wealth to Chile, but not much of it has trickled their way. After a 60-hour week in the vineyards, Isabel, a weather-beaten temporary worker in Paine, 50km (30 miles) south of Santiago, takes home less than $60. Wages in the packing plants can be three times as high, but that is often because workers, on piecework rates, put in a 14- or even 16-hour day. According to Francisca Rodriguez of Anamuri, one of the few national organisations that represent temporary farm workers, sheer pressure of work often leads to the illegal use of stimulants, which are sometimes supplied by employers.

The labour practices of large fruit farms are usually better than those of small producers; but long hours, lack of formal contracts and the absence of basic facilities, such as drinking water and lavatories, mean that even minimum safety standards are sometimes broken. On February 5th, a farm bus built to carry 45 passengers plunged into a river near the city of Rancagua, killing two *temporeras* and two children and injuring many more. There were 70 people on board.

According to *temporeras*, conditions have worsened this year. Wages have not increased and, in some areas, they have fallen. That may be because Chile's job market has yet to recover from a recession in 1999, but, in Paine, Isabel and her friends have a different explanation. Last year's harvest coincided with a presidential election: their boss, who was backing the right-wing candidate, suddenly produced free transport and chemical lavatories. His candidate still lost.

The government's Labour Office, the main organisation responsible for enforcing labour laws, says the fruit industry is hard to police. For a start, it has fewer than 500 inspectors to check all the country's businesses, including some 12,000 fruit farms. Farm labour is also hard to track. It is mostly informal, and the workers themselves, keen to earn money while they can, are often suspicious of government inspectors.

Luis Schmidt, the president of the Fruit Producers' Federation, admits that labour-law infringements expose Chile's fruit exports to the risk of complaints from producers in other countries. However, he says that Chile's farmers are trapped by laws designed with long-term employees in mind. A rigid social-security law, for example, means that *temporeras* often do not want contracts, which jeopardise the benefits they get through their husbands or by registering as unemployed. Similarly, many farmers would like to train temporary labourers, but find it hard to qualify for tax breaks that have been designed for firms with long-term employees.

When President Ricardo Lagos, a moderate socialist, took office last March, he promised the *temporeras* a better deal. So far, his government has concentrated on limited goals, such as educating workers to wear protective clothing during spraying and providing temporary child care at harvest time.

Other changes, including allowing temporary workers to form unions, hinge on a wider reform of labour laws to be debated by Congress this year. But that will be a slow business, and a bit of tinkering with existing laws, adapting them to the realities of fruit farming, might do more for the lives of the women who pick the grapes.

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The gentle art of lobbying in China

Feb 15th 2001 | BEIJING
From The Economist print edition

Foreign companies are learning to influence the government

WHEN China was ruled by emperors, a lobbyist, if such a person existed, would probably have been put to death. It would have been a proper punishment for a mere mortal who dared to suggest policy to the Son of Heaven. Lobbying, if no longer a capital offence, is still a tricky affair for the many foreign companies trying to make their way in China. American lobbyists more familiar with plying their craft in a system where new legislation is preceded by months of public debate say that in China they often do not hear about laws until they have already been enacted. Even knowing whom to lobby is hard.

Foreign high-tech companies discovered to their dismay last year that China had passed a law that would severely restrict the use of encryption technology. The idea of encryption is to make a message unreadable, except to the receiver. It is an up-to-date form of telephone scrambling. Security forces hate it, and not only in China. The new law would have banned in China all products that made use of encryption, however innocently, among them Motorola's cellular telephones, Intel's microprocessors, and Microsoft's Outlook e-mail program. The anti-encryption law had originated with China's public-security ministry. But the American, European and Japanese companies whose products were threatened by the law decided to bypass the spooks and lobby the ministries of trade and economics. A big loss of foreign business, they reasoned, would matter more to the political leaders. William Daley, at the time American secretary of commerce, talked to Chinese officials at the World Economic Forum in Davos. The Chinese weighed things up, did some sums, took account of trade talks pending in the United States, and eventually relaxed the law, applying it only to products whose primary purpose was encryption.

So it can be done: even China will yield. But building up the contacts and influence to bring about change takes time. "You don't start lobbying them the first time you meet them, or you'd just run into a brick wall," says Brenda Chow, of British American Tobacco, who was born in the Chinese province of Guangdong. "I have to show them my best Chinese self." She says it is expected that you get to know officials and their families, have dinner at each other's homes, and remember their birthdays. Another lobbyist tells of taking the wives and children of Chinese officials to private swimming clubs.

Some firms ban such contacts. Doing personal favours for officials is a "slippery slope", they say. Just being a "good corporate citizen" can gain a sympathetic ear with officials. Contributing to an educational foundation or flood relief wins bonus points. Most ministries have research centres run for profit. Hiring their researchers can make it easier to get a meeting with officials.

Protocol is important. A lobbyist will have a perceived rank when dealing with the government, equivalent to the level of the official he speaks to. Most American business lobbyists are considered senior enough to meet a deputy minister. A minister would probably be expected to see a chief executive. Such meetings,

when they do happen, usually take place after months of informal negotiations between lower-level officials and lobbyists. By the time the formal meeting takes place, it is expected to be a choreographed event. “The worst thing that can happen in a meeting with a senior official is to have topics come up that weren’t predetermined,” says a veteran.

As in Washington, DC, companies in Beijing use the revolving door. One lobbying firm has eight former Chinese government officials on its staff. They have some competition: Chinese companies also devote plenty of staff, time and money to lobbying efforts of their own these days, often on the same issues as western companies, including encryption.

The big problem for many western companies in China is counterfeiting. The China Anti-Counterfeiting Coalition, set up in 1998, represents more than 30 companies. Todd Stellfox, a lobbyist for the coalition, strives for a light touch. “You generally don’t want to become too visible because then you create enemies,” he says. “Be non-confrontational. You don’t want them to lose face.”

In the short term, the coalition seeks better enforcement of China’s anti-piracy laws. In the long term, it wants more comprehensive legislation. Despite China’s promises to outlaw the counterfeiters, it still has a long way to go to clamp down on, for example, pirated compact discs.

The coalition’s main argument for a counterfeit clampdown is that its companies represent a lot of foreign investment, at least $6 billion. “The implied threat is that these companies will withdraw their investment if these problems cannot be resolved,” says Mr Stellfox. Sometimes that sort of argument produces results, as over encryption. But lobbyists sigh that China is still an authoritarian government, and economic clout remains limited.

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Japan

Bunkered

Feb 15th 2001 | TOKYO
From The Economist print edition

FRANCIS DRAKE did it, although his game was bowls, and once it was over he sunk the Spanish armada. Yoshiro Mori, Japan's much-abused prime minister, has been less fortunate. When news of a collision, on February 9th, between an American nuclear submarine and a Japanese fishing boat reached Mr Mori, he was enjoying a round of golf. He played on for another three holes and arrived back at his official residence some three hours later. Beset by a weakening economy, a falling stockmarket, assorted scandals and riot within his own ranks, Mr Mori's golfing gaffe has done him more harm. This week, senior officials from New Komeito, which shares power with Mr Mori's Liberal Democratic Party in a three-way coalition, were calling for his head.

Like the LDP, New Komeito faces an election for Japan's upper house in July. But it must also contest local elections for Tokyo's metropolitan assembly in June. The party is strong in Tokyo. Because it is in bed with the LDP, however, New Komeito's strained reputation for clean politics is coming under daily assault. A campaign-finance scandal involving KSD, a small-business foundation that showered the LDP with money, has already led to the arrest of an LDP politician. A scandal in the foreign ministry, involving a low-level bureaucrat said to have used government money to buy racehorses, is doing yet more damage.

The gossip in Nagatacho, Tokyo's political district, is that Mr Mori's fate may have been sealed at a meeting between New Komeito and LDP dons in an Azabu restaurant on January 24th. Mr Mori would supposedly be required to announce his resignation, perhaps at the end of February. The annual election for the party's presidency, which decides the prime ministership, would then be brought forward, from September to the party's general meeting on March 13th. With the much-fancied Yohei Kono, the foreign minister, done in by the scandal in his ministry, the main candidates are Ryutaro Hashimoto, a former prime minister who joined Mr Mori's cabinet in December, and Junichiro Koizumi, who heads Mr Mori's faction in the LDP. After some early gains by Mr Hashimoto, Mr Koizumi now seems to be inching ahead.

The difficulty will be persuading Mr Mori to leave. The KSD mess may lead to the arrest of other LDP politicians. The foreign-ministry scandal may claim the scalp of Mr Kono. Mr Mori's tax position is not entirely clear. Yet nothing seems to penetrate his leathery hide. He seems still to enjoy life, especially away from Tokyo. Next time he plays a round, he may be tempted to leave his mobile phone behind.

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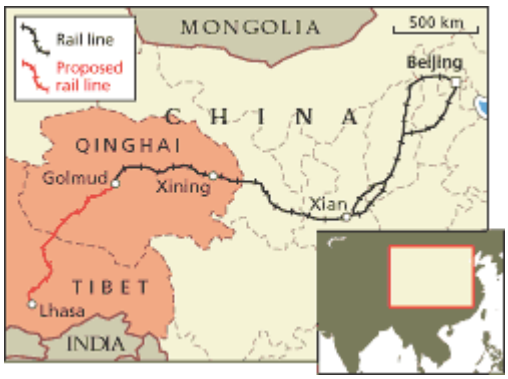
By train to Lhasa

Feb 15th 2001
From The Economist print edition



FOR those whose idea of happiness is a long-distance train ride, there is a treat coming up. On February 8th, the Chinese government approved a plan to construct a railway line from Golmud, in western China, to Lhasa, the capital of Tibet. When it is completed, in about seven years' time, it will be possible to take a train all the way from Beijing to Lhasa, a distance of 3,900km (2,425 miles). The Golmud-Lhasa stretch will itself be 1,125km long and, to add to the thrill, it will be the highest railway in the world. The views across the Himalayas should be stupendous.

Not everyone is thrilled by the prospect of the new railway. Tibet was occupied by the Chinese in 1950, shortly after China's Communist revolution, and made an "autonomous region". Ever since, China has been trying to absorb the region into the mainstream Chinese economy. The railway, say Tibetan opposition leaders in exile, will make it easier to resettle more Chinese workers in Tibet and exploit its resources of oil and gas. During his worldwide wanderings, the Dalai Lama, Tibet's spiritual leader, has told international companies that it would be best not to get involved in industrial developments in his country.

The Chinese prime minister, Zhu Rongji, has appeared to confirm Tibetan suspicions. The railway, he says, will help to speed up "economic and cultural exchanges". Because of the difficulty of building in the Himalayas, Tibet is China's only region without a railway network. Now its engineers are apparently confident of laying the line safely, even on a tricky 600km stretch of permafrost. In Tibetan temples they may be praying for global warming.

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Indian agriculture

Prowling tiger, slobbering dog

Feb 15th 2001 | LUDHIANA
From The Economist print edition

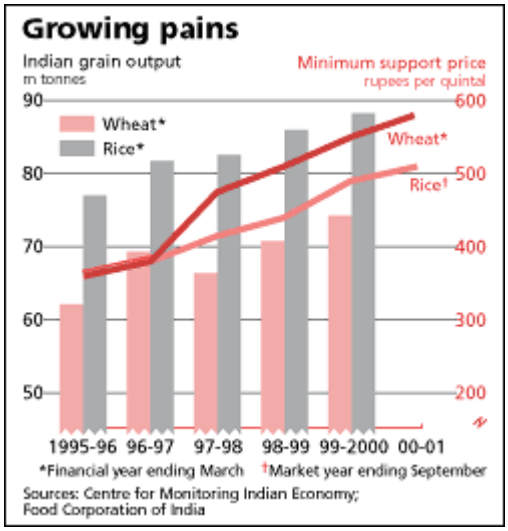
Obsesssion with self-sufficiency is a bar to reform

RATS and buffaloes in Punjab, India's breadbasket, are in fine fettle. The rodents are feasting on millions of tonnes of wheat and rice stored in government warehouses (or, frequently, in the open air), the cattle on discarded potatoes. But no one else is happy. The government cannot afford the huge cost of buying and storing the grain coming from farms in Punjab and elsewhere in India, nor can the poor afford to buy it. By some measures, nearly half the population is under-nourished.

Farmers, who feel themselves pinioned by high costs, low prices and the threat of imports as India opens its markets, are in a foul enough mood to scare politicians. With elections coming up before long in five states, says K. Varadharajan, general secretary of the All-India Kisan Sabha, which claims to represent 16m small farmers, rural discontent will "terribly affect" India's ruling Bharatiya Janata Party and its coalition partners.

India has come a long way since the 1960s, when it had to beg for food from foreign granaries such as the United States. Thanks to the green revolution and investment in irrigation, roads and other sorts of rural infrastructure, India can now feed itself and still have leftovers. But it has not developed a modern food industry. Value added in Indian agriculture is 15-20% of the total, compared with an additional 100% or more in some developed countries, says Karam Singh, director of the Agro Economics Research Centre at Punjab Agricultural University in Ludhiana.

India exports less than 5% of its agricultural produce. The Himalayan stocks of rice and wheat represent food that is filling neither rich western stomachs nor poor Indian ones. Like some of the cows that wander about Indian roads, farmers are protected yet apparently miserable. Important inputs like electricity and water are free, or almost so, and fertiliser is subsidised (though farmers complain that the fertiliser industry captures most of that subsidy). For wheat and rice, in some places, farmers have an assured buyer in the Food Corporation of India (FCI) at an assured price. That minimum support price has been rising, even though world prices have fallen, one reason why government storehouses are choked with unwanted grain. India's economic reforms have also helped farmers by reducing the relative price of manufactured goods, shifting the terms of trade in their favour during the 1990s.



This is not how it seems to India's angry agriculturists. Their list of woes begins with last summer's poor monsoon, which has depressed agricultural growth this year. Despite this, Mr Varadharajan claims that "prices have crashed" for a variety of commodities, including coconuts, cotton, tea and rice. Even for products with floor prices, he says, farmers are getting less than the minimum. When farmers dare to diversify away from them, the results can be catastrophic. It is they, not the state, who bore the costs of Punjab's potato glut. In Andhra Pradesh, diversification disasters have led to a series of highly publicised suicides.

Part of the distress is caused by support prices, which have raised costs for farmers growing other crops, says Abhijit Sen, an economist at Jawaharlal Nehru University who was recently head of the Commission on Agricultural Costs and Prices. Some distress reflects a deterioration in government services, such as public investment in irrigation and credit to farmers, which has slowed growth. It does not help that farms are small, and shrinking with each generation (whereas the population dependent on them is not).

Many direct their ire at the World Trade Organisation, which allows rich countries to subsidise their farmers but obliges India to dismantle quotas on imports. The last of these are due go on April 1st. Mr Varadharajan wants high tariffs to replace them.

There are less-defensive approaches. Sharad Joshi, a farmer and activist from Maharashtra who recently became chairman of the government's agriculture task-force, says the farmers' movement is split between "tigers" that want to escape their cages to prowl for exciting new prey, and "dogs" that prefer the certain sustenance of the kennel.

A tigerish policy would free farmers from India's obsession with producing enough food to feed itself and bid them take their cues from markets, both domestic and foreign. Current policies, little touched by the economic liberalisation that began ten years ago, discourage this. Some examples: states may forbid the export of produce to other states; private traders are barred from stocking commodities beyond certain limits (to prevent hoarding); private investment in dairies is restricted; in Punjab, farmers may sell most major crops only through highly taxed *mandis* (markets); futures trading in most commodities is banned.

All this subtracts value from India's crops. McKinsey, a consulting firm, estimated not long ago that after middlemen and poor infrastructure had taken their toll, a fifth of the value of food output was lost. For fruit and vegetables the proportion was twice that. Regulations discourage investors from improving the way food gets from field to shop, which would make diversification less risky and raise incomes.

When Cargill, an American multinational, tried to buy wheat direct from farmers, bypassing the *mandi* system, middlemen persuaded the state government to force the company out. But the obstacles are not always insurmountable. Pepsi, an American company, has 2,000 farmers growing tomatoes and potatoes for processing in Punjab.

Mr Joshi is trying to get round the small-farm problem by promoting a new sort of company, in which farmers' land would be converted into an equity stake. But India must reform its farming industry if it is to attract big investment in food. A new policy unveiled by the government last summer suggests some of the necessary reforms, but it remains a draft. Meanwhile, farmers are getting angrier and officials are wondering how to cope with the next big deliveries of grain. The government has yet to specify a support price for the forthcoming wheat crop. The situation is "very explosive" says an official of India's Planning Commission. Everyone but the livestock is worried.

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Hong Kong

For whom the Gong tolls

Feb 15th 2001
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AP

In plain English

"THE Chinese government", screams the *People's Daily*, "will fight the war to the end." Its obsessive struggle with the Falun Gong, the banned cult that just won't lie down, is spilling beyond China's borders. "Western anti-China masters" are, after all, said to be behind the Falun Gong's almost daily protests in public places such as Tiananmen Square. So perhaps China's harsh treatment of the sect's followers was bound to affect relations with the outside world.

George Bush's new administration had been inclined to drop America's annual attempt to criticise China's human-rights record before the UN, but to do so now would provoke howls of outrage at home. The Dutch have just cancelled a delegation's trip to China, because the Chinese did not want it to meet Falun Gong followers in Hong Kong. And now a 600-strong Canadian trade delegation already visiting China has got caught up with human rights when it was meant to be concerned with profits.

The immediate issue is Hong Kong. In that free and cosmopolitan city, Falun Gong followers number no more than a few hundred: peaceful, law-abiding professionals, for the most part. Demonstrations and gatherings have been held, including one in City Hall last month. Civil liberties are protected in Hong Kong, including the rights to free expression and association. Indeed, such rights are the touchstone by which Hong Kong's fragile autonomy within Communist China is measured. Hence the concern, since the Chinese government has taken its war against the Falun Gong to Hong Kong in recent weeks, telling members there to cut their ties with the mainland. Worse, the territory's chief executive, Tung Chee-hwa, seems to buy the central government's line. He describes the sect as "more or less bearing some characteristics of an evil cult".

The Falun Gong, hitherto pretty much ignored in Hong Kong, has become an embarrassment—even a source of dislike—to those who think that not rocking the boat is the best way to preserve delicate freedoms. The concern grew recently when Hong Kong's secretary for security, Regina Ip Lau Suy-yee, said the government would keep a "close watch" on the group. Banning it would be a blow to Hong Kong's self-government.

Yet the annoyance Falun Gong causes the central authorities has led some pro-Beijing figures in Hong Kong to call for anti-subversion laws. The Basic Law, Hong Kong's constitution, requires such laws to be passed. But the administration, and notably the outgoing chief secretary, Anson Chan Fang On-sang, has time and again put off the explosive day. Her successor, Donald Tsang Yam-kuen, may lack the personal authority to continue the procrastination. So it came as a small relief this week that the secretary for justice, Elsie Leung Oi-sie, who is usually considered well attuned to views in Beijing, said she had received no instructions to bring in anti-subversion laws.

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Kirgizstan

An inspector calls

Feb 15th 2001 | BISHKEK
From The Economist print edition

COMPARED with the other former Soviet Central Asian republics, Kirgizstan has long been noted for at least a degree of democracy and a lively and relatively independent press. But for how much longer?

The country's newspapers came under pressure to take the government line during last year's presidental-election campaign. After Askar Akaev was duly re-elected president in October, they hoped they would again have some breathing-space, if only for economic reasons. Kirgizstan, with only 4.9m people and few natural resources, relies heavily on international aid and cannot afford to be viewed as repressive. Kazakhstan, Turkmenistan and Uzbekistan, by contrast, are rich in oil and gas.

However, there are no signs of an official thaw. Rather, the independent-minded newspapers believe that the government now wants to drive them out of business. Frequent visits from tax inspectors are one nuisance. Another is lawsuits by government officials claiming damages from newspapers that, the officials say, have offended their "honour and dignity".

Viktor Zapolskii, editor and founder of a Russian-language weekly, *Delo No* (Case Number), is being sued by Misir Ashyrkulov, a former minister of security and now a presidential aide. He claims $20,000 in damages from Mr Zapolskii and $64,000 from another newspaper that interviewed him. In another trial Mr Zapolskii has deeper worries. He, his deputy and a reporter are accused of divulging state secrets in reporting the trial of Feliks Kulov, a former vice-president and now the main opposition leader. The three people face up to two years in jail. Mr Kulov was accused of abuse of power while in office, and sentenced to a jail term of seven years. Reporters were excluded from his trial. On February 2nd, the European Union called for "transparent process" in Mr Kulov's appeal, with a hint that a "respect for democracy" matters in Kirgizstan's dealings with the EU.

Television and radio stations also feel under pressure. The threat of a sudden visit by fire inspectors or the temporary shutdown of the broadcasting station is a deterrent to running critical programmes: self-censorship is less painful. During the presidential-election campaign, Piramida, the leading independent television station, was reduced to reporting only cultural and sporting events and optimistic economic forecasts, according to its director, Andrei Tsvetkov. Many viewers simply switched off.

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Pakistan

Generals at bay

Feb 15th 2001 | LAHORE
From The Economist print edition

AFTER over two years of relative oblivion in self-imposed exile, Benazir Bhutto, a former prime minister of Pakistan, has jumped on to the front pages of the country's newspapers. She has done so, as it happens, on the basis of a report in a British newspaper. The report claims that the former government of Nawaz Sharif leaned on some judges to convict Miss Bhutto and her husband, Asif Zardari, for corruption in 1999. The evidence for this is said to be in the form of taped conversations between senior government officials and a judge at Miss Bhutto's trial. The tapes were made by a member of Pakistani intelligence who decamped to London and has now, so the story goes, been pricked by conscience.

Miss Bhutto's footprints seem to be all over the story. After her conviction in 1999, she claimed that she had not had a fair trial. But the Supreme Court routinely postponed hearing her petition for one reason or another. Last December, when Mr Sharif was exiled to Saudi Arabia by the present military government of General Pervez Musharraf, Miss Bhutto sensed a political vacuum in the country and considered returning to Pakistan and taking on the generals.

The Musharraf regime said it would arrest her if she set foot in Pakistan and dig up more evidence of her corrupt activities. Meanwhile, the Supreme Court announced that it would hear her 1999 petition on February 26th. This led pundits to speculate that the military regime, having got rid of one prime minister, was gearing up to finish off another. But the tapes have compromised the judiciary, whose credibility is already low after decades of battering by generals and politicians. The Supreme Court will be under pressure to acquit Miss Bhutto or order a lengthy retrial which would give her lawyers a chance to air her grievances.

This may be just the beginning of General Musharraf's troubles. Disgruntled opponents of the regime have asked the Supreme Court to strike down an "accountability" law under which hundreds of politicians and bureaucrats have been imprisoned or sidelined from politics. Lawyers' organisations across the country have banded together to announce a national strike on February 27th, demanding an early restoration of civilian rule. And the Alliance for the Restoration of Democracy—comprising supporters of Miss Bhutto and Mr Sharif, along with several other parties—is planning a demonstration on March 23rd, Pakistan Day.

Worse, the religious parties are beginning to suspect that General Musharraf may not be too kindly disposed towards them, despite his reliance on religious militants to fuel the insurgency in Kashmir against India. The government is worried by a sectarian conflict that has claimed dozens of lives. It is embarrassed by outpourings on alleged blasphemy and immorality. Last month, bearded mobs burnt down the offices of the *Frontier Post*, a Peshawar newspaper that had inadvertently printed a blasphemous letter. Last week, the home minister, Moinuddin Haider, a retired general, was in Afghanistan, asking the Taliban regime not to provide sanctuary to "religious terrorists" from Pakistan. Extremists are now accusing the generals of acting at the behest of "super-Satan America". An exaggeration, surely.

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Remaking Yugoslavia

Feb 15th 2001 | BELGRADE AND BUJANOVAC
From The Economist print edition

The new and overlapping governments of Yugoslavia and Serbia are starting to tackle a host of problems, some with more success than others

Djindjic maps Serbia's future, while Kostunica ponders his own—and Yugoslavia's

THERE can be few ex-communist countries in Europe where the tone and rhetoric of government have recently undergone so dramatic a change. For most of the past decade, Serbia's disgraced tyrant, Slobodan Milosevic, told his compatriots that their deepening poverty and isolation were entirely the fault of a malicious West. The propaganda of ethnic hatred and "splendid isolation" was a perfect smokescreen for the theft of billions of dollars' worth of state assets and the criminalisation of Serbia's economy. Now the smoke has blown away.

Whatever Mr Milosevic's successors stand for, it is not isolation. Faced with growing insecurity in the south, where ethnic-Albanian guerrillas operate close to Kosovo, the new masters in Belgrade are seeking and to some extent getting the help of NATO, the alliance that less than two years ago, during an 11-week air war that forced Serbia to surrender control of Kosovo, seemed to be the Serbs' eternal foe. Meanwhile, the job of nursing Yugoslavia's ruined public finances back to health is in the hands of multilingual sophisticates, some of them from Serbia's far-flung diaspora, who have been telling western governments they want to replace the secretiveness of the Milosevic era with almost unlimited candour.

If a change of style were all Serbia needed, everything would be on track for a rapid improvement in the country's lot. But several interlocking problems need tackling before anyone can be confident of Serbia's living happily ever after. The most pressing is the skirmishing between ethnic-Albanian fighters and Serbia's army and police in a strip of land on the eastern edge of NATO-occupied Kosovo. The daily exchange of small-arms fire in the Presevo valley is also viewed at NATO headquarters as one of the most serious issues facing the alliance, partly because it could cause tensions to snap between Slavs and Albanians in nearby Macedonia.

Back in Belgrade, the constitutional future of the rump Yugoslav federation of Serbia and tiny Montenegro is still painfully unresolved. A general election is to be held in Montenegro in April, probably followed by a referendum on full independence in June. Whatever course the Montenegrins choose, the constitutional confusion is unsettling politics among Serbs in Belgrade.

Though nobody there exercises much influence in Montenegro at present, Serbia has in effect two governments. One is the "federal" administration headed by Vojislav Kostunica, who became Yugoslavia's president after the uprising that ousted Mr Milosevic last October; the other is that of Serbia alone, where a sometimes quarrelsome coalition took office last month under Zoran Djindjic as prime minister.

To make matters worse, there is open discord among these Belgrade-based governments on a range of policies, including how to deal with the insurgency in the south and how enthusiastically and rapidly to co- operate with the UN's war-crimes tribunal in The Hague, which wants to try Mr Milosevic and at least a dozen other top Serbs. Much as the politicians in Belgrade would like to do so, they cannot long put off this issue. The United States has said that, from March 31st, it will block Yugoslavia's reintegration with the IMF and other international financial institutions unless it has begun seriously to co-operate with the war-crimes court.

Who'll try Milosevic?

Mr Kostunica, a constitutional lawyer and moderate nationalist, has continued to question the tribunal's legitimacy. The most urgent priority, he insists, is to bring Mr Milosevic before a court in Belgrade. Though the idea of trying the disgraced leader in his own country is increasingly popular among Serbs, the notion of extraditing him to a foreign court is too bitter a pill for many of them to swallow—and contrary to Yugoslav law as it now stands.

Senior people in the federal and Serbian governments have drafted legislation to provide for a trial in Belgrade under the joint authority of the Hague court and the Yugoslav judiciary. If this proves unworkable, the authorities in Belgrade may still insist on holding at least a short trial before packing their ex-president off to the Netherlands.

As Mr Kostunica weighs the political odds, his economic advisers are pointing out some hard realities. Though Yugoslavia can live without the small amount of direct aid promised by the Americans, it cannot easily manage without help from multilateral lenders, since it urgently needs to reschedule an external debt of perhaps $12 billion. Its nominal GDP has fallen by half over the past decade, to only $10 billion. And the Yugoslav state owes another $4.5 billion to its own citizens, whose hard-currency bank accounts are frozen, and as much again in debts denominated in local dinars.

Miroljub Labus, the Yugoslav deputy prime minister, has said he believes it should be possible to negotiate some sizeable debt relief within four months, but not if the country is again isolated because of its lack of co-operation with the court at The Hague, and not if a complex divorce with Montenegro also has to be arranged.

At least there is one form of international co-operation that Mr Kostunica does enthusiastically support: working with western governments to defuse the bomb ticking away in the Presevo valley. On that score, he and his government in Belgrade have won plaudits from some unlikely quarters, including the United States, the EU and NATO, for restraint in dealing with the guerrillas who have dug into the "ground security zone", a five-kilometre (three-mile) strip on the boundary of Kosovo. Under the June 1999 agreement that ended NATO's air war, Yugoslavia may deploy nothing more than lightly armed police in this area.

But the guerrillas, known as the Army for the Liberation of Presevo, Medvedja and Bujanovac (UCPMB) after the main towns in the strip, have taken advantage of that restraint to reinforce their positions both inside the security zone and even deeper into Serbia, close to the main road from Austria to Greece. Nebojsa Covic, a deputy prime minister of Serbia, went to NATO's headquarters this week to present a plan to "demilitarise" the region while attending to the woes of the impoverished Albanians in the affected area.

Both the governments in Belgrade and NATO are having their own lively debates about how far this unlikely friendship between Serbia and the alliance can go. But already NATO peacekeepers who patrol the eastern strip of Kosovo and Serbian troops are co-operating rather well. The NATO forces regularly nab Kosovars trying to cross the border. NATO officials are even discussing the idea of narrowing the security zone to give the Serbian forces more freedom of action. At least for Serbs, a hopeful new mood indeed.

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The criminal crucible that is Kosovo

Feb 15th 2001 | PRISTINA
From The Economist print edition

WITH his blackthorn stick, formal bearing and tough talk of “zero tolerance”, Christopher Albiston is a policeman’s policeman. But the UN’s new police chief in Kosovo, a 48-year-old veteran of the Royal Ulster Constabulary, may soon feel that the problems of Northern Ireland are simple compared with the devil’s brew he has now taken on.

With NATO and the UN running Kosovo as a virtual protectorate, there is one peacekeeping serviceman, or foreign or local police officer, for every 36 of its 1.8m people—one of the highest ratios in the world. But then Kosovo’s guardians face a complex mixture of threats: an ethnic stand-off in the town of Mitrovica, a small war to Kosovo’s east, and plain old-fashioned crime.

In this volatile mess, one of Mr Albiston’s most urgent tasks is not just to arbitrate between ethnic Serbs and Albanians but to improve relations between his multinational police force and the French section of NATO’s Kfor mission: each accuses the other of being unhelpful.

But his hardest task is simply to tackle crime. Despite Kosovo’s ethnic hatreds, the criminal clans of all stripes readily co-operate in Kosovo’s lively underworld. So too do the Macedonians, Montenegrins and other East Europeans who do a thriving trade in weapons, illegal immigrants, drugs, prostitutes, cigarettes, petrol and much else.

Kosovo worried the world’s crime-fighters long before NATO moved in. It lies across the drug route westward from Afghanistan, Pakistan and Turkey, in an area, between Albania, Bulgaria, Macedonia and Montenegro, where frontier controls are less than watertight. Every month four to eight tonnes of heroin are thought to pass westward through the Balkans. When Norway’s police last month made their biggest-ever heroin haul, they arrested a couple of ex-guerrilla Kosovars.

These days, however, most of the drug traffic skirts round Kosovo, because NATO troops on the lookout for illegal weapons might also spot lorries filled with narcotics. What does flood through the province is a river of young women from Moldova, Romania, Bulgaria and Ukraine, lured by offers of fictitious jobs in Western Europe and then sold into sex-slavery.

After ten years of war, the Balkans are also awash with weapons, from pistols to heavy mortars. The anti-tank rocket fired at a British intelligence headquarters in London last autumn by the Real IRA may have come from Kosovo. In a society traditionally armed and with a ferocious appetite for domestic and clan violence, where the rules of the medieval blood feud often still hold good, armed crime and kidnappings are both common.

To fight all this, the UN fields 3,500-plus policemen from 40-odd countries; many bring their own intelligence agencies along. Some policemen, such as the Northern Irish, Canadians, Austrians, Scandinavians and Egyptians, are doing better than others. Mr Albiston has to make it all work. A new organised-crime intelligence unit, in which 17 of the 30 officers are British, is cited as one example of the UN's determination to get tougher; so too are draconian anti-terrorism laws now being drafted. But both the new police chief and Hans Haekkerup, the Dane who has just started running Kosovo for the UN, will have to convince the world (including the criminals) that they will not condone crime—as their predecessors were sometimes thought to do—when the criminals have political friends.

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Ukraine

Falling apart

Feb 15th 2001 | KIEV
From The Economist print edition

AP

They want to blot Kuchma out

AT FIRST sight, the chances of replacing President Leonid Kuchma and his coterie of tycoons and hard men look increasingly good. A scandal involving a murdered journalist, Georgi Gongadze, and the mysterious bugging of private conversations has badly damaged the Ukrainian leader. Leaked recordings, if authentic, show him as foul-mouthed, corrupt and perhaps even complicit in murder. Official denials so far have been muddled and unconvincing.

Thousands of people have joined “Ukraine without Kuchma” demonstrations in recent days. Hundreds have been camping in a tent city in Kiev’s main street. The media have become a bit less timid about reporting the protests and the latest twists of the scandal, such as the flight abroad of the doctor who first identified Gongadze’s corpse and who now says he fears for his own life.

Last week brought the first casualties in the president’s inner circle. He sacked the head of the SBU, Ukraine’s omnipresent, murky and unaccountable security service, as well as the head of his bodyguards. The prosecutor-general, another ally implicated in the Gongadze affair, was banished for several weeks. Mr Kuchma’s business cronies may be losing their enthusiasm for him.

The president is also facing unaccustomed criticism from western politicians who used to back him (holding their noses) as a bulwark against Russian hegemony in the former Soviet Union. Both the State Department and the European Union have criticised official bungling in the investigation of Gongadze’s disappearance. An EU foreign-policy team, led by Javier Solana from the Council of Ministers and Chris Patten from the European Commission , visited Kiev this week with a mixed message: criticism of Mr Kuchma and his friends but continued support for Ukrainian reform and integration with the rest of Europe.

Mr Kuchma has been fighting back. His main target so far has been the woman widely believed to be financing the protests, Yulia Timoshenko, herself a former energy tycoon and, until she was sacked last month, the deputy prime minister responsible for energy. Her reforms had stamped on the toes of powerful businessmen close to the president. Arrested on February 13th on bribery charges, she spent Valentine’s day in jail, as did (separately) her businessman husband, who was arrested last year.

Also on February 13th, Mr Kuchma corralled the reformist prime minister, Viktor Yushchenko, and the speaker of parliament into signing a strongly worded joint statement which denounced the protests’ organisers as egotists bent on power at all costs. They were accused of using “national socialist” tactics to provoke the authorities into repression, and of putting the “very existence of Ukraine, its territorial integrity and social peace at stake”.

That looks bad for the protesters, who would like Mr Yushchenko as president but are now accusing him of betraying them. The authorities have ordered the tent city to go. The SBU has been harassing the protesters; repression may increase. As a sop, the government says that public-sector wages will go up by as much as 70%.

Mr Kuchma and his allies may reckon that they have been too lenient. Besides, the protests have not yet caught the nation’s imagination. A popular revolution of the sort that swept through Central Europe a decade ago feels a long way off. The constitution gives parliament the right to remove the president, but

this is tricky in practice. Protests from the West are muffled by the desire to support the Ukrainian government under Mr Yushchenko and to prevent Ukraine drifting further into Russia's arms.

The latter may be happening anyway. Mr Kuchma's other main move this week was a chummy chat with his Russian counterpart, Vladimir Putin. The pair signed agreements to co-operate in such matters as a unified electricity grid and new ventures in satellite rocketry. Russian companies have already been buying up increasing amounts of Ukrainian industry, mostly very cheaply (see article). Opposition politicians say that there is a secret political price for the deals; Ukraine may, for instance, have to join the Russia-Belarus Union. Mr Kuchma's lot hotly denies this.

Mr Putin did not talk publicly about Mr Kuchma's troubles. But an influential Kremlin website carried a commentary backing Mr Kuchma, smearing the protesters as a hotchpotch of fascists, opportunists and misguided reformers, and claiming recent events were a "tragedy" staged by westerners plotting against Russia. Meanwhile, provided he can keep his nerve, shaky Mr Kuchma looks set to hang on, at least for a while.

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Germany

The flailing right

Feb 15th 2001 | BERLIN
From The Economist print edition

The struggling Christian Democrats' leader, Angela Merkel, is increasingly under fire within her party, but no replacement is in sight

A YEAR ago, in the wake of a hideous slush-fund scandal within their party, Germany's Christian Democrats were desperately searching for a new leader to heal wounds and lead them into battle against Chancellor Gerhard Schröder's ruling Social Democrats in the next general election, due in 2002. They are still looking. And though Helmut Kohl, the Christian Democratic chancellor ousted by Mr Schröder in 1998, recently accepted a fine in exchange for the dropping of criminal charges against him for his part in the scandal, the damage to his party's reputation is still painfully felt.

The "new beginning", proclaimed with fanfare when Angela Merkel was elected chairman last April, has failed to materialise. Germany's main opposition party still lacks both a clear set of policies and a distinct identity. It continues to wobble between confrontation and compromise with the government. It remains riven by bitter power struggles. A mood of defeatism seems to have set in.

Though cleverer and tougher than she looked at first, Mrs Merkel is increasingly blamed for failing to put her party in fighting trim. For many party faithful, a botched poster campaign launched last month by their leader and her new secretary-general against the chancellor's proposed pension reforms, using three police-style mug-shots of Mr Schröder, highlighted the weakness, backbiting, muddle and clumsiness of their leadership. Outside Germany, poster caricatures of an opponent as a "criminal" may be part of the everyday rough and tumble of politics; but most Germans, used to a more dignified political discourse, seem to have been offended by the joke.

The day after the campaign's launch, the posters were withdrawn. The loudest protests came not from the government's supporters but from the opposition's own ranks. "We must not sink any lower," declared Friedrich Merz, the ambitious leader of the Christian Democrats' parliamentary group. "There must be a change in leadership style." Whose side was he on? A few days later, in an even more direct challenge to Mrs Merkel, he suggested that, by virtue of his office, he was just as eligible as either she or Edmund Stoiber, head of the Christian Social Union, the Christian Democrats' Bavarian sister party, to run as the opposition's candidate for the chancellorship next year.

Though there is no rule in Germany that the party leader must become its candidate for chancellor, it had been widely assumed that Mrs Merkel, as leader of the biggest centre-right party, would carry the joint centre-right opposition's colours into the general election. She had certainly given every sign that she would like to. But as her star has waned, doubts about her suitability have grown. Ten months ago, opinion polls had her breathing down Mr Schröder's neck; now she trails him by some 25 percentage points. Most Germans say they like the pastor's daughter from eastern Germany as a person, but barely a fifth of them can picture her as chancellor.

Most right-wing voters now think Mr Stoiber the better bet. He still denies wanting to run for the job, but he might yet go for it if he thought he could win; at present he probably does not. No Christian Social Union leader has ever become chancellor. The late Franz Josef Strauss, who dominated Bavaria for many years, ran for the job once, in 1980; he dismally failed to get it.

So the search goes on. The technocratic Mr Merz is not yet a serious contender. Roland Koch, the tough premier of the state of Hesse, has a better chance of being chosen in the longer run. But, because of his involvement in a party-finance scandal in his own state, he will probably hold back until the general election due in 2006. Some leading Christian Democrats have even begun to talk once more about Wolfgang Schäuble, Mr Kohl's successor as party leader, who was forced to step down a year ago after being sucked into the national party's slush-fund scandal. But few people think he has a serious chance

of a comeback.

The beleaguered party at least hopes soon to put its slush-fund scandal behind it. Last week the public prosecutor persuaded Mr Kohl to agree to pay a fine of DM300,000 ($141,000) in exchange for the dropping of criminal investigations into his behaviour. A similar offer has been made to two of Mr Kohl's former aides. If the courts approve the deal, the full truth will probably never come out. The government has no say in the matter. The parliamentary committee of inquiry into the affair says it will continue its work, but it will be difficult for it to get to the bottom of the scandal. So the Christian Democrats may be unable to persuade the voters that they have really cleaned themselves up.

If the party does badly in the state elections coming up next month in Baden-Württemberg and Rhineland-Palatinate, Mrs Merkel will again take much of the rap. Some will call for her to give up her party chairmanship; her chances of running for the chancellorship will diminish still more. Her main comfort is that the alternatives on the right, for either task, still look inadequate.

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Charlemagne

Bertrand Delanoë, a Socialist mayor for Paris?

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NOT so long ago, it was a political given: Paris, "the most beautiful city in the world" (a constant, and perhaps justified, self-description), was and always would be a bastion of the French right and the Rally for the Republic (RPR), as the main Gaullist party is called. Forget the financial scandals coming to light from the 1980s and early 1990s, when politicians gave fictitious jobs to their friends and stuffed party coffers with contractors' kickbacks. That could be solved by casting the present mayor, Jean Tiberi, as scapegoat for the past and selecting Philippe Séguin, a party heavyweight (literally as well as figuratively), as candidate for the future. Come the municipal elections of March 11th and 18th, the capital's voters would once again vote conservative. After all, Mr Séguin would surely see off his Socialist opponent, Bertrand Delanoë, a 50-year-old senator for Paris so little known that some on the right tease him as "Bernard".

So much for hubris. For the past month the opinion polls have all been predicting a victory for Mr Delanoë; even the RPR's official spokesman now speaks of defeat. Take a creative reading of history (the modern mayoralty of Paris dates back only to 1977) and Paris is about to fall to the left for the first time since the revolutionary Commune of 1871. Add the strong possibility that Lyons, France's second city, will also fall to the left, and the political landscape will look increasingly grim for the right in general and for President Jacques Chirac in particular. The threat is that the momentum from the municipal elections will carry over to next spring's general and presidential elections, keeping the left in power in parliament and ensuring that Lionel Jospin, the Socialist prime minister with whom Mr Chirac is at present condemned to "cohabit", will defeat Mr Chirac for the presidency.

In which case, the right will have only itself to blame—and on several counts. One is its internecine impulse. Mr Tiberi, a founder member with Mr Chirac of the RPR, has refused to go quietly. Why should he, when he was a loyal assistant to Mr Chirac during the 18 years, from 1977 to 1995, when Mr Chirac was himself mayor of Paris? Instead, Mr Tiberi insists on running for re-election, albeit as an independent, and hints that he may reveal things Mr Chirac would prefer to keep hidden.

A second cause for blame is Mr Séguin's campaign strategy: not only does he refuse to countenance an alliance with Mr Tiberi, but he has also perversely lengthened the odds by running in a district that is a left-wing stronghold and by placing himself fourth, not first, on the RPR's list of candidates. (Paris is divided into 20 *arrondissements*, or districts, each with its own mayor and councillors; these, in turn, choose from among themselves the mayor for the capital.) Already there are mutterings that Mr Séguin is too impulsive to be trusted: witness how, in 1999, he abruptly resigned as RPR president just before the European elections.

But perhaps the most careless cause was to underestimate Mr Delanoë. As he himself wryly puts it, "They thought the big Séguin would gobble up the little Delanoë." Admittedly, it was an easy mistake to make. Although Mr Delanoë's team claim he had his eye on becoming mayor two years ago, the fact is that the Socialists' first choice was the then finance minister, Dominique Strauss-Kahn, until he was ruled out by judicial inquiries into his financial affairs. Then there was a second choice, Jack Lang, until he was suddenly drafted into Mr Jospin's cabinet as education minister.

Third choice, and therefore third best? The logic is simplistic. Go back a couple of decades and Mr Delanoë was seen as one of the Socialist Party's best and brightest: a member of parliament, the party's official spokesman, and a friend and ally of its new first secretary, Lionel Jospin. In short, the slightly-built young man from Tunis, whose parents moved the family back to France when he was 14, was an apparatchik already close to the top.

And then in the mid-1980s the career abruptly faltered: a switch in the electoral system meant he had to be "parachuted" from Paris to seek a seat in parliament for the Vaucluse, deep in rural France, and the voters said no. A disillusioned Delanoë retired from the political fray (though retaining a seat on the Paris council) to found his own public-relations and advertising agency.

So why is he back? "I chose to live in Paris. I love Paris. It's a city of freedom, culture, dynamism." Well, of course it is, but any candidate will say exactly the same, and promise voters more or less the same things: cleaner air, less dogs' mess (a Parisian nightmare), better security, affordable housing, stable taxes and so on. If Mr Delanoë scores higher for creativity, it is with ideas to bring unused private housing into public management, or to employ the legions of jobless young to guard school crossings and so free the police to fight crime, or to offer better-directed treatment programmes for drug addicts. Meanwhile, there must, surely, be a desire to embarrass the political and media establishment that had so quickly written him off, to prove he is more than just the rare French politician who declares himself a homosexual.

Doubtless there is. After all, as leader of the left in the last municipal elections, in 1995, he was proud that the left defied predictions and took six districts. Imagine the satisfaction if this time it took the majority.

But the political desire goes only so far. Mr Chirac always saw the mayor's sumptuous Hôtel de Ville as a stepping-stone to the presidential Elysée Palace. Mr Séguin's own presidential ambitions are no secret. Mr Delanoë has no such pretensions. His economics adviser, Christian Sautter (sacked as finance minister just over a year ago), says that "with Bertrand, it's Paris, Paris, Paris."

Indeed so. When Mr Delanoë, chain-smoking his cigarillos, says he has other things in his life than politics, you believe him. "I don't dream of power." You believe him, too, when he says he takes the opinion polls with a pinch of salt. You believe both him and his staff in saying that he never, ever, underestimates his opponents. And you believe, too, that this somewhat unrevolutionary *communard* has a good chance of beating them.

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Denmark and Greenland

Ultima motives

Feb 15th 2001 | COPENHAGEN
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THULE air base, in the Arctic waste of north-west Greenland, is a crucial spot in the blueprint for the United States' national-missile-defence scheme. The trouble is that Greenland belongs to Denmark. And the second trouble is that it is neither just any old part of Denmark nor yet a plain old-fashioned colony, but, since 1979, a semi-autonomous territory under the crown.

Foreign policy, security and defence are handled by the Danish government. But a local government runs things like the education and taxation of the 56,000 Greenlanders. And it reckons that Thule's future is its and their business too.

The issue has drawn attention to the distribution of power between Denmark and its former colony. The Danish government has yet to decide whether to allow the upgraded radar installations that the Americans' "son of star wars" anti-missile project would need. The project has still not been approved in Washington, though during the election campaign George Bush was keen.

Denmark—facing American pressure one way, Russian the other and widespread doubts among West European governments—will decide only "when the time is right," says Mogens Lykketoft, its foreign minister. Like the British government, facing similar questions over the radar station at Fylingdales in northern England, the Danish government wants to postpone the awkward decision until a formal request comes from the Bush administration.

The Greenlanders, eager to have their say, are chortling with delight over a message from Mr Bush to their premier, Jonathan Motzfeldt. He had sent the newly inaugurated American president a congratulatory message. What he got back was not just a diplomatic thank-you, but an expression of Mr Bush's eagerness to work together with him on matters of shared concern, such as the base at Thule.

Just possibly the niceties of the Danish constitution are not fully understood by Texans; the Danish government chose to overlook Mr Bush's message as a minor protocol gaffe. But many Greenlanders preferred to take it as a signal that the United States looks kindly on their hope of self-determination.

It is still a distant hope. Another Danish dependency, the Faroe Islands, south-east of Iceland, plans to hold an independence referendum on May 26th. In Greenland as yet there is no concerted thrust for full independence, let alone plans for a vote on it. But many Greenlanders would like greater autonomy, at least. If they play their cards carefully, Thule could help to win it for them.

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Catalonia's next boss?

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JORDI PUJOL has been the uncrowned king—officially, president—of Catalonia since 1980. He will remain so until the next regional election, due in 2003. But now he has named his heir-apparent: Artur Mas, the economy minister in his regional government, by appointing him "chief minister" of that government, a peculiarly Catalan post reinvented for the purpose. But though Mr Mas may inherit Mr Pujol's party, can he inherit power?

He is a smooth technocrat, very different in style from the populist Mr Pujol. He says he is "a social democrat on social issues, a liberal on individual ones". Now 45, he became a local councillor in 1987. In 1995 he was elected to the regional parliament and named minister for territorial policy—a big job in a part of Spain that has often aspired to independence.

Mr Pujol has handled that aspiration skilfully, never demanding outright independence for Catalonia, but always insisting on special status and treatment from the central government in Madrid. Mr Mas would follow suit: "I'm a Catalan patriot, but I don't intend to separate Catalonia from the rest of Spain," he says.

He is now eager to prove that he can emulate Mr Pujol's forceful, hustings-loving personality, which spanned Catalonia's urban-rural divide and earned him grudging admiration throughout Spain and the friendship of King Juan Carlos. "I have what it takes to become a charismatic politician," he told the Barcelona daily *La Vanguardia*. "Time will tell."

Mr Pujol's coalition has been in a minority since 1999. Some of its top people object to the anointing of Mr Mas. And Pasqual Maragall, the Catalan Socialists' leader, thinks the time that has come is his.

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Ireland

Hi, Noonan

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From The Economist print edition

FINE GAEL, Ireland's main opposition party, has a new leader. Having unceremoniously deposed John Bruton, a former prime minister, on January 31st, it quickly put in his place the man who had plotted his downfall, Michael Noonan. He is a skilled parliamentarian with wide ministerial experience, and a master of the quotable soundbite, not to say of the knife. But can he bring his party back to office?

Mr Bruton had been ten years in the job, including 2 1/2 years at the head of a coalition government in the mid-1990s. He was a man of substance, but suffered, said party critics, from a "charisma deficit". Mr Noonan, at 57 four years older, has both substance and image, and a keen desire for power. But he inherits a demoralised party, unsure of its identity and role in Irish politics, and divided by the manner of his succession. He has not long to turn it round: a general election is due by June 2002, and the prime minister, Bertie Ahern, leader of Fianna Fail, may be tempted to call one sooner.

Part of Fine Gael's trouble has been an inability to distinguish itself from Fianna Fail. Fine Gael laid the foundations of the new Irish state in the 1920s. But Fianna Fail built it up and, having first taken office in 1932, has been in government for some 50 of the years since. Fine Gael has been out of office for most of the past 14 years. Both parties are essentially conservative and centrist, both rooted in the nationalist past. Their hostility goes back to the civil war that sprang up when nationalists split over the terms of the treaty that brought freedom from Britain. But the recent modernisation of Irish society has made their similarities far bigger than their differences.

Both are catch-all parties, with support across all social classes, age groups and regions. Fianna Fail, however, is better at winning it. On social and moral issues, Fine Gael has usually shown itself readier for change than Fianna Fail, notably in such controversial areas as reform of the anti-contraception law and the legalisation of divorce.

One or other party has served in every government since 1922. But never both together. That iron law of Irish politics, it seems, remains. Yet the political landscape is not what it was. After the 1989 election, Fianna Fail accepted coalition with minor parties as the price of power. Since then it has swung according to its partners: centre-right, centre-left and now, since 1997, right again with the Progressive Democrats. Fine Gael must link up with Labour if it wants power. No wonder Mr Noonan's first step as leader was to make noises about social justice.

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European defence

A long march

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From The Economist print edition

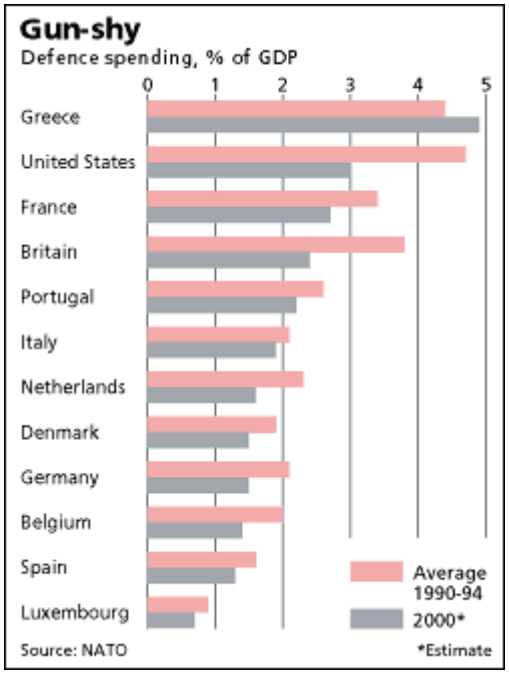
TO BELIEVE some recent headlines, the likely first victim of the European Union's embryonic rapid-reaction force could be Europe's alliance with America, as the EU muscles in rudely on NATO's military turf. Yet, even if that were its ambition—in fact, it is volunteering only for some bits of soldiering that NATO decides not to do—the EU-led force to be assembled by 2003 is more likely to be severely hobbled in its formative years by political and military growing pains, and by European governments' reluctance to put up the money needed to match performance to promise.

EU governments together spend about two-thirds of what more globally-committed America spends on defence, and there are some 2m EU citizens under arms. So it ought not, in theory, to be hard to meet the EU's goal of being able by 2003 to assemble up to 60,000 combat troops, deploy them within 60 days and sustain them for up to a year. But it will be harder than some defence ministers seem to think.

The troops have been found simply by giving soldiers already assigned to NATO a new EU "hat" (as happens when, say, British or French troops are assigned to UN peacekeeping duties). What they still lack—as first the Gulf war, then the crises in Bosnia and Kosovo demonstrated—is up-to-date command-and-control, the right equipment, from communications to precision weapons, and the transport aircraft and ships to get them swiftly to a trouble-spot.

Europeans have been failing to come up with these goods in NATO for years. Sticking an EU label on their plans may make Europe's governments more likely to stump up the cash, thereby benefiting NATO too. But results so far have been meagre.

Defence budgets across the EU have been plundered to meet tight spending targets for the launch of the single currency. Yet military spending will need to be sustained at a minimum of 2% of GDP a year over the next decade if the missing defence equipment is to be paid for. After years of steady cuts (see chart), eight of the 11 EU members of NATO have told the alliance this year that they plan to increase defence spending in real terms, though the extra will be small. France and Germany are not among them, though France will spend more on procurement for what by 2003 will be its newly all-professional army. Germany's defence minister seems to be hoping to find extra cash mostly from base closures, but already his sums are failing to add up.



If little extra money can be found, might existing budgets be spent more wisely? Germany, to the puzzlement of some of it own soldiers, plans to spend scarce defence euros on satellites that NATO already has. But defence budgets could be stretched a bit to afford more useful kit by eliminating duplication and pooling some existing operations: for example, air-to-air refuelling.

Literally to give themselves a lift, Britain, France, Germany and Spain are among those hoping to buy Airbus Industrie's new A400M heavy-lift transport aircraft. But these planes will not be ready by the 2003 deadline, so the EU is considering leasing Ukrainian transport aircraft, as Britain and others have done for UN-related duties.

Even those staffing the new committees in Brussels that are busy putting the EU defence effort together admit that by 2003 they will at best be ready for some very modest military duties, not the range of tasks the EU has set itself. As a pamphlet to be published shortly by the London-based Centre for

European Reform argues*, whether the EU's effort evolves into something more effective over time depends on Europe's political will: to back Europe's soldiers, whether representing the EU or NATO, with the equipment they need, and to work out who—certainly not those Brussels committees—will lead such a force into harm's way.

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*"Europe's Military Revolution" by Gilles Andréani, Christoph Bertram and Charles Grant

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The slow progress of fast wires

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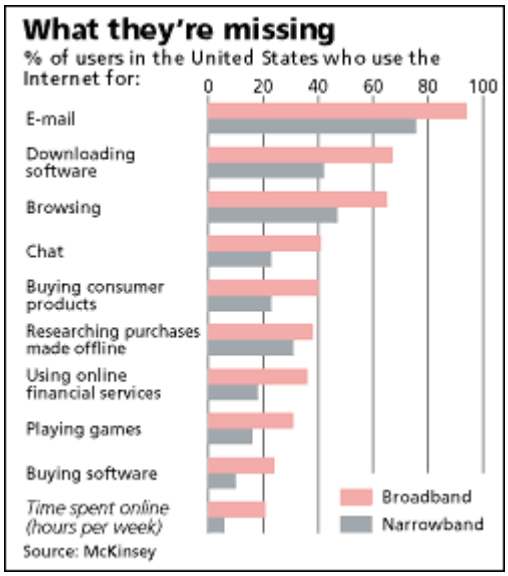
BT is frustrating the government's ambition to get Britain wired

SETTING targets is one of the government's favourite hobbies; and now it has added another one to its long list. By 2005, Britain will have become "the most extensive and competitive broadband market in the G7" group of rich industrial countries. To explain why and how, the e-minister (yes, really), Patricia Hewitt, published a report this week with much fanfare entitled "UK Online: the Broadband Future". The report, Ms Hewitt declared, was a response to the prime minister's demand "for an action plan to help drive forward broadband networks in the UK".

The government has never had any doubt about the strategic importance of having a top-class telecoms sector. As Ms Hewitt points out, it is already fairly clear that the wide availability of relatively inexpensive bandwidth is an important source of vibrancy in the Internet economy. The evidence from America is that consumers who have the high-speed "always on" Internet access delivered by broadband technologies spend more than four times as long online as their dial-up counterparts (see chart), and engage in a far wider range of e-commerce activities. Similarly, small businesses are twice as likely to trade online if they have a high-bandwidth connection.

For most small businesses, which cannot afford to lease a dedicated line, cheap, fast access down the telephone line is particularly important. It offers a new way to reach their customers and to extend their markets; it enables them to save money through Internet-based procurement and membership of electronic trading hubs. With a broadband connection, they can even tap into the kind of sophisticated business software, hosted remotely by one of the new application service providers, that used to be available only to the biggest firms.



All this means that the government's wish to be a new-economy exemplar is entirely sensible and not just a bit of New Labour fluff. The trouble, as so often with this government, is the gap between the aspiration and the execution. The reality is that broadband deployment in Britain is actually going rather badly. Steve Maine, chief executive of Kingston Communications, a go-ahead Yorkshire-based telecoms firm that has built its own local broadband network and has been a leader in video-on-demand services, describes the government's enthusiasm for broadband as "incongruous", in view of what is actually happening. Others use shorter and ruder words.

A fortnight ago, Kingston Communications and Thus, formerly Scottish Telecom, pulled out of trials, supported by the government and the telecoms regulator, Oftel, to test the delivery of broadband

services from exchanges owned by BT. Out of more than 30 service providers who expressed eagerness to participate last year, there are now only four or five left, of which only three—Cable & Wireless, Energis and Colt—are considered heavyweights who can continue without the need to raise additional funding.

The trials are part of a process that is known in telecoms jargon as “local loop unbundling” (or LLU). Although Britain has a modern and recently consolidated cable network, and there are hopes that broadband fixed wireless operators will enter the market, the government has come to believe that LLU is critical to creating the competitive market it wants to see. The essence of LLU, which began in America four years ago and at the beginning of this year was made mandatory across the European Union, is that competing telecoms operators should have a right to place their gear in the exchanges of the incumbent—known as “co-location”—and thus gain direct access to the copper loop that goes to nearly every home and business.

What made LLU suddenly important to regulators and valuable to alternative service providers was a technology known as DSL (digital subscriber line) that in effect turbocharges the twisted copper wires into becoming a fat broadband pipe that can deliver data at up to 50 times the speed of a dial-up connection. For new-wave telecoms firms, it provided a way of reaching the customer with advanced services without having to build a new network. For policymakers, it offered a fast-track route to real competition and lower prices for customers.

There is, however, one rather large problem with unbundling the local loop. Incumbent telecoms firms, not surprisingly, detest it, and stubbornly refuse to co-operate with rivals.

BT has learnt from the delaying tactics that have been skilfully deployed by America’s Baby Bells. Even now, fewer than 2% of American access lines have been unbundled, and several would-be broadband service providers have gone bust. Rivals accuse BT of offering up an unattractive mix of exchanges for co-location, and also of exaggerating the difficulties of getting the equipment in. Currently, 700 exchanges are being surveyed for co-location, but Mr Maine of Kingston Communications says that the ones that have been chosen do not create a large enough number of potential customers in any one area to make it economically viable to offer a service.

According to Richard Feasey, who is in charge of regulatory affairs at the British arm of WorldCom, another operator that recently withdrew from LLU trials, whereas BT’s engineers may want to do a good job in making LLU work, business strategy is set by the firm’s dominant retail operation. The retail division brings in the money and has the loudest voice in the boardroom—and it has every interest in delaying the arrival of unbundled DSL, which it believes will allow competitors to undermine its highly profitable business of leasing dedicated lines to businesses. Mr Feasey does not blame Oftel. “No regulator”, he says, “can adequately restrain the commercial imperatives of a vertically integrated incumbent.”

Others take a more hostile view of both Oftel under its current director, David Edmonds, and BT. Mr Maine accuses BT not only of stopping third parties—such as himself—from offering broadband, but also of denying the country the benefits of the technology by doing so little itself. He is at a loss to explain what he sees as the “laid-back” attitude of both the regulator and the government. A director of a firm that is using DSL as a platform for video-on-demand says that BT has never approached DSL in the right way. “They are quite visionless. Other businesses want to work with us. With BT, what comes back is a lumpen sullenness.” Others claim that the timidity of the regulator in dealing with “anti-competitive practices that are endemic within BT” is to blame.

A common complaint is that Mr Edmonds refuses to use the extensive powers Oftel has under the Competition Act. They allege that he worries about BT’s threats to resort to judicial review and is prepared to prosecute under the Competition Act only if his legal advisers believe that there is at least a 70% chance of success—a very high bar for any test case to overcome.

Ms Hewitt blames other people. The problems, she told a parliamentary committee, have arisen “because the last administration and the previous head of Oftel [Don Cruikshank, now chairman of the London Stock Exchange] were not interested in local loop unbundling.” She professes complete faith in Oftel’s current director, pointing to a more aggressive stance in recent months and progress by BT in readying more of its exchanges for co-location. If firms such as WorldCom, Kingston and Thus no longer want to proceed with co-location, that is their commercial decision—they can always change their mind later on. That is a fair point. Kingston hopes to re-enter the residential broadband market next year, perhaps by pooling resources with Energis—although how that squares with the government’s professed

determination for Britain to have the world's most competitive broadband market within just four years is not entirely clear.

The irony is that BT itself has proposed a possible solution to the present unhappy situation. Under far-reaching plans drawn up last year to break itself into separate businesses, BT is seriously considering dividing its retail and wholesale operations, just as WorldCom's Mr Feasey would like it to. The outlines of a deal with Oftel are clear enough. NetCo or LoopCo would be a regulated monopoly that would be obliged to treat all its customers, whether BT Retail or anyone else, on equal terms. The rest of BT would escape the micro-regulation that has sapped its capacity for innovation and entrepreneurship: it would be subject only to standard competition laws.

But when BT first floated the idea late last year, Oftel seemed to regard the proposal as a threat rather than an opportunity. While the devil will be in the detail, Mr Feasey says that it would allow Britain's telecoms industry to rejoin the first division, with all that means for attracting future investment. Is the government listening?

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It's dark up north

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From The Economist print edition

DESPERATE though the government is to be seen to be bridging the "digital divide", its appetite for using taxpayers' money to bring broadband to the Scottish Highlands seems distinctly limited. The reluctance to subsidise bringing the latest thing in telecommunications to one of the remotest and most thinly populated parts of Britain might at first seem surprising, given the region's past experience.

In 1989, the local development agency, Highlands and Islands Enterprise (HIE), gave a sceptical BT £4.9m ($7.2m) towards the cost of upgrading the region's telephone exchanges to digital standards. In addition, BT spent a lot of its own money running fibre-optic cables up and down the glens. So in 1993 it came to pass that for about £25m, the Highlands and Islands became one of the first bits of Britain to have a telephone system capable of providing a state-of-the-art ISDN (integrated systems digital network) service.

Ken MacTaggart, HIE's head of telecommunications, says that there are about 3,300 jobs in the region, ranging from call-centre work to new Internet businesses, which could not exist without modern communications. He expects there will be 5,000 such jobs by 2005. Enthused by this rather low-cost job creation, HIE has gone on to give £4m of mainly EU money to Vodafone and Cellnet to provide 95% of Highlanders access to mobile telephony. Thus, a telecoms company, has been given £3m to wire the scattered campuses of the new University of the Highlands and Islands.

However, for BT the results have been more mixed. Most of the dark fibre it so expensively laid remains stubbornly unlit and unused. BT won't say exactly how much of its Highland fibre is dark, claiming it is a commercial secret. But there is evidently enough of it for Wendy Alexander, the Scottish enterprise minister, to use it as an argument to counter those who think that the government should now subsidise bringing broadband technology to the Highlands. If the fibre remains unlit it will be like one of those roads that politicians build to service factories that never materialise.

The problem with broadband is that nobody yet even knows how it will be provided in such sparsely populated areas where cable does not penetrate and exchanges are too far from customers for DSL to operate. Satellite or fixed wireless links are possible, but the technologies and the economics are untried. Ms Alexander thinks that rather than subsidise the supply of broadband, it would be better to identify the likely demand for it. In a small town, one of the biggest initial users of broadband will be the public sector—schools, hospitals and local councils. Ms Alexander reckons that telling telecoms firms what the Scottish government plans to spend over the next three years will make it easier for them to reach investment decisions. It is a sensible approach, but Highlanders waiting for the delights of video-on-demand and high-speed Internet access should not hold their breath.

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Education

The feelgood factor

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From The Economist print edition

Britain is getting in touch with its feelings: emotional literacy has arrived in primary schools

THIS week is “jealousy and contempt” week at Mason Moor primary school in Southampton. For about 30 minutes, groups of pupils have been discussing these feelings with a teacher, using role-play, picture books and classroom displays. The same period is set aside every week to examine another feeling. The aim is to make the pupils more emotionally articulate. Ultimately, according to Sue Nicholson, the head teacher, the school hopes that they will “use words instead of hitting each other”.

Emotional literacy is, not surprisingly, an American import, born of Daniel Goleman’s 1996 bestseller, “Emotional Intelligence”. Mr Goleman’s central premise was that the ability to recognise, understand and handle emotions was at least as important a determinant of a person’s life-chances as the logico-deductive thought processes commonly measured in schools. Not only could emotional intelligence be measured, but, to an extent, it could also be taught. (On one such test for this article, your correspondent’s emotional IQ was found to be only just above average. The official assessment was, “Not bad, but practically this still means that you are not taking full advantage of your potential.” Suitable reading material was recommended.)

In Britain, Antidote, a campaign group, was set up in 1997 to promote the spread of emotional intelligence. Suzie Orbach, Princess Diana’s psychotherapist, was one of its co-founders. Business has already latched on to the concept of emotional intelligence, as practitioners have sold it as a way “to help us to help ourselves to work more effectively”. The second World Summit on Emotional Intelligence was held in Britain last year, and was attended by representatives from corporations such as American Express, the BBC and Tesco.

But Southampton is the first local education authority (LEA) to have tried out emotional literacy in schools, piloting programmes in 90 schools over the past 18 months. This week was crunch time for these programmes, as the LEA received its latest report by Ofsted, the government’s educational-standards watchdog. Ofsted has never been known to pull its punches when reporting on innovative teaching methods. So education chiefs in the city were delighted by the comment that the emotional-literacy strategy is “highly valued by the project schools and is contributing to improved levels of behaviour management in schools.” This gives the green light to other LEAs to implement their own emotional-literacy classes.

Great claims have been made for emotional literacy. Some claim that it can civilise society and political culture; others even maintain it could make the English talk about subjects other than the weather. Schools, on the other hand, take a more utilitarian approach and use it as a way to manage pupils’ behaviour. With 54% of pupils on free school meals and lots of single-parent families, Mason Moor school is in what is called a “challenging catchment area”. Ms Nicholson argues that emotional literacy is an important counterweight to the relentless drive to raise low academic standards. To do better, pupils have to “risk failure”, “understand criticism” and “accept target-setting”. Exploring a wider emotional vocabulary allows children to come to terms with what is emotionally required for doing better academically.

Peter Sharp, principal education psychologist for Southampton City Council, argues that when pupils arrive at a school such as Mason Moor, they will have a “feelings vocabulary” of only up to ten words. And when they want to extend it, all they do is add a four-letter epithet. Emotional literacy equips these pupils with more appropriate words and responses. Ms Nicholson claims that it has helped reduce playground violence at the school, and has raised the standard of work in the literacy hour.

But not everybody is in favour of this warm, if woolly, stuff. Some argue that Southampton is using it as

a cheap way of trying to deal with a serious, expensive problem—disruptive children with conditions such as attention deficit disorder, who should be in special facilities, not in mainstream schools filling in spurious questionnaires about their emotions. One angry local parent, who claims that two of his children have been bullied by others with “special needs”, has gone so far as to set up a group called HELP—Halt Emotional Literacy Programme. He has already collected the signatures of the parents and guardians of 94 children at his son’s school, all concerned by the implications of emotional literacy.

Southampton LEA's policy is, indeed, to try to include as many difficult and disruptive children in mainstream education as possible. But the council argues that this is part of a wider “inclusion” strategy that predates any attempts at emotional literacy. And the Southampton schools argue vigorously that emotional literacy works only if it is combined with a normal exclusion policy, not as a substitute for it. The Ofsted report shows that far from using emotional literacy to skimp on costs, Southampton still delegates a higher-than-average proportion of money to fund its special needs and outreach programmes.

As Ms Nicholson at Mason Moor school acknowledges, emotional literacy “does not work with the extremes of children’s behaviour”. She sees a more modest role for it, as “a practical way of ensuring that the class functions properly.” That would be good enough for most heads now considering emotional-literacy classes for their schools.

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Bagehot

What women want

Feb 15th 2001
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"LA DONNA è mobile," wails that duke in "Rigoletto"; and women are especially fickle when it comes to voting. Opinion polls consistently find them more likely than men to declare themselves "undecided" about which party they intend to support in the coming election. On the other hand, once they have made up their minds, women are more willing than men to do something about it. For two decades now, British women have been likelier than men to cast their votes; in the general election of 1997, 3% more women voted than men—a turn-out gap of almost 2m votes. Which leads the Fawcett Society, an organisation that champions sexual equality, to declare happily, "women's votes will decide the outcome of the next election."

Whereas American women have tended to support the Democrats, British women, especially older women, are more Conservative. Why is a bit of a mystery, since the Labour Party has always espoused enthusiastically the sorts of issues—health, education—that women say they care about. It may be that women have tended to shy away from Labour because it came out of the only environment more misogynistic than the Tories' gentlemen's clubs—the trade union movement. Certainly, as the links between the Labour Party and the unions have weakened, so the gender gap has narrowed. It was huge in the 1950s, at about 17 points. It narrowed in the 1980s; widened again in 1992; and, in 1997, shrank to a couple of percentage points.

Surely, with its caring, sharing policies, New Labour should be able to reverse the gender gap? After all, the ladies do love Tony Blair. Notwithstanding the humiliation the Women's Institute inflicted on him last year, when its members booed him into a flummoxed silence, women like him much better than they like that smug, patronising, *bald* Mr Hague. Yet even so, women are less likely than men to express satisfaction with the government, and have been slower than men to forgive the government after last September's fuel crisis, when Labour's poll ratings plunged briefly lower than the Tories'.

What has the government done wrong? It has wooed women assiduously. By discriminating in favour of female candidates before the 1997 election, New Labour got a record 101 women into Parliament. That gave rise to a famous photograph—now derided as patronising—of Mr Blair with his "babes". Several women got big jobs: Harriet Harman was made secretary of state for social security, over the head of Frank Field, the MP who had done most in opposition to "think the unthinkable" about welfare reform. Margaret Beckett became president of the Board of Trade. There was even talk, before the last election, of a ministry for women.

The argument for more women politicians was not just that female voters liked seeing their pretty faces, but also that they would develop more female-friendly policies. And the government has indeed come up with some (whisper it) feminist policies on childcare and employment. But much of this has been down to the only recently married, still-childless chancellor, Gordon Brown; while over other sorts of "women's issues" the government has got its knickers in a twist.

Both main parties suspect that one way into women's disproportionately conservative hearts is to go on about the traditional family. In one of several neurotic memos leaked last year, Mr Blair moaned about how unfair it was that he of all people was seen as "out of touch" with "gut British instincts" on several issues, including the family. He demanded robust policy initiatives with which he could be "personally

associated". But since families nowadays come in all shapes and sizes, and it is not cool to be "judgmental", this has not been so easy.

Whereas the Conservatives have chosen to make the case for traditional marriage, and to reflect their preference by restoring the married-couple's tax allowance, Labour ministers have fallen out over whether it is right even to endorse marriage in principle. The first draft of a forthcoming white paper on the family, drawn up by Paul Boateng at the Home Office, dared to venture the opinion that children brought up by married couples were more likely to have stable childhoods. This assertion attracted the scorn of a trio of female ministers—Lady Jay, Margaret Hodge and Tessa Jowell—who argued that it would offend single, co-habiting or divorced people who were also capable of being perfect parents. Righteous praise of traditional family structures might anyway sound a discordant note from a cabinet in which about one minister in three has been divorced or co-habits, and which contains two openly gay members. The contentious white paper now awaits Mr Blair's casting vote.

Nor has the increased number of MPs led to the political power that some had hoped. That women's ministry, for one thing, never came into being: all that emerged was a "women's unit" which has attracted as much mockery as respect, especially after convening a summit on "body image", and now seems to be fading away altogether. As for those high-profile cabinet ministers, Ms Harman was sacked in Mr Blair's first reshuffle and Mrs Beckett was demoted.

If Mr Blair does win a second term, he is likely to have fewer babes to pose with. But, as his first term has shown, having a representative parliamentary cadre does not, in itself, solve anything. It has not helped Labour resolve the contradictions between women's traditional, and modern, roles. The MPs have attracted most public attention for their strong views about baby-changing facilities at the House of Commons (for) and the long hours MPs work (against). These preoccupations may have suggested to voters that female MPs are just as self-serving and remote as the male of the species is widely held to be. The gap between politicians and ordinary people may be even more important—and difficult—to bridge than the gender gap.

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Dear Chancellor

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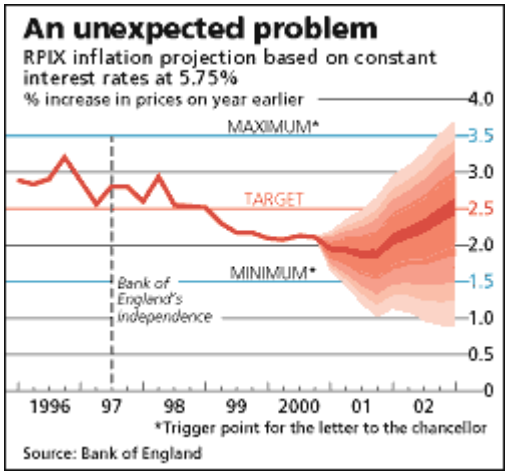
FOR most of the post-war period, the battle against inflation has been unremitting. It seemed to be a Dracula that could rise from the grave, no matter how often you drove a stake through its heart. So you might imagine that a decline in inflation to its lowest level in at least 25 years would be cause for celebration at the Bank of England, now responsible for keeping inflation under control.

Not a bit of it. Brows are now being furrowed at Threadneedle Street over the looming embarrassment of an extraordinary letter that Sir Edward George, the Bank's governor, may soon have to write to Gordon Brown, the chancellor of the exchequer.

Sir Edward, once memorably accused of being an "inflation-nutter", has to meet the precise terms of the government's remit to the Bank for controlling inflation. In setting an inflation target of 2.5% at all times, Mr Brown has allowed the Bank some, though not much, latitude for error. If inflation (measured by RPIX, the Retail Price Index excluding mortgage interest payments) rises above 3.5% or falls below 1.5%, the governor must write an explanatory open letter to the chancellor, setting out how the Bank's Monetary Policy Committee intends getting it back to the target. This stipulation is to ensure that the MPC worries as much about clamping down unnecessarily on growth as allowing inflation to rise too fast.



When Mr Brown established this regime in June 1997, the possibility of inflation undershooting rather than overshooting the target appeared remote. In July that year inflation jumped to 3.0% and by spring 1998 it reached 3.2%. However, that turned out to be the high-water mark. Inflation has been below target since April 1999 and fell in January to 1.8%, the lowest since records began for the RPIX series in January 1976. The Bank now admits there is a one-in-four chance that it will fall below the lower limit of 1.5% by the fourth quarter of this year.

Other forecasters think that the odds are much shorter and that the lower limit could even be breached earlier. In his budget, now scheduled for March 7th, Mr Brown is expected to implement his proposals in the pre-budget report to freeze fuel duties in cash terms and to cut duty on ultra-low-sulphur fuel. Since duties were raised last year, the combined effect of these changes is likely to cut inflation by 0.3-0.4% by April, calculates Ciaran Barr, an economist at Deutsche Bank. While there might be offsetting rises in the prices of other goods and services, this illustrates how close inflation now is to the 1.5% trigger point.

Suppose Sir Edward does indeed have to write the infamous letter. His first task will be to account for the lapse in monetary control. He has a number of alibis. For one thing, he can say that he did not expect the chancellor to concede so much ground to the fuel protesters last year, with the resulting knock-on effect on inflation this spring. He can also point out that the MPC takes the government's own spending plans at face value. So if it underspends, this will reduce the fiscal stimulus the MPC was expecting. Finally, the governor can attribute much of the inflation undershoot to the earlier strength of sterling against the euro.

In his letter, the governor would also have to set out how the MPC is planning to bring inflation back to target. The Bank now believes that growth will be weaker this year as corporate investment remains subdued and the impact of the American slowdown starts to filter through. The claimant unemployment total reported in January declined to just over 1m, showing that the labour market remains exceptionally tight, which is one of the Bank's main concerns about the prospects for inflation.

However, the MPC accepts that the risks to its inflation forecast are more likely to take the form of an undershoot than an overshoot. In particular, the American downturn could be deeper and more prolonged than expected. This would further reduce inflation, since the Bank calculates that a one-percentage-point shortfall in American growth could eventually cut British inflation by 0.2-0.4%. The obvious implication of an undershoot that triggers a letter is that the MPC will have to cut interest rates further.

Even if the Bank does squeak by without the governor having to put pen to paper, it will still be open to the accusation that it has in practice worried more about breaching the upper rather than the lower trigger points for the letter. Inflation has persistently tended to come in below forecast. The Bank's own forecast indicates that inflation will have been below the target for almost four years by the start of 2003.

In its defence, the Bank can argue that the range is extremely narrow, given how volatile inflation has been in the past. Indeed, when Mr Brown first established the new inflation target regime, the National Institute of Economic and Social Research estimated that the Bank would be able to stay between 1.5% and 3.5% only half the time. The real surprise about inflation is not that it has fallen so low, but rather how stable it has been in the past four years.

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Sectarianism ain't wot it used to be

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From The Economist print edition

SOMETIMES people seem to regard their old arguments rather like family heirlooms. They treasure them and polish them even though the world has moved on. Something like that seems to have been behind the curious events in Carfin, a Lanarkshire village, over the past few days.

The controversy began when Bertie Ahern, the Irish taoiseach (prime minister), cancelled a visit he was due to make to Carfin on February 11th to unveil a memorial to Irish immigrants fleeing the Irish famine of the 1840s. It turned out that the local MP, Frank Roy, had advised the taoiseach to stay away as his presence might have provoked sectarian violence in the wake of the "old firm derby" (a football match) between Glasgow rivals Celtic and Rangers. In the past this match has resulted in violence, as Scotland's two biggest football clubs stand proxy for the local Catholic and Protestant populations.

But Mr Roy's constituents were so outraged at being depicted as senseless religious bigots by their own MP that he felt obliged to resign his unpaid government post as parliamentary private secretary to the Scottish secretary. And the men and women of Carfin would seem to have been vindicated by events. There were only 16 arrests in the ground after the match, but none in Carfin, where disappointed Rangers fans drowned their sorrows perfectly amicably side by side with Celtic fans celebrating their team's 1-0 win.

Maybe Mr Roy should have got out and about a bit more. Then he would have realised how times have changed. Historically, religious sectarianism has certainly been rife in Lanarkshire, and Ireland's marching season of parades by northern Orangemen and southern Hibernian orders are still paralleled in the county today. But the economic and social inequalities which gave this division a vicious edge (Orange-dominated trade unionism kept Catholics out of better-paid skilled jobs) have long gone, together with the mining and steel industries that sustained them.

These days there are more Muslims in and around Carfin, a predominantly Catholic village, than there are Protestants. The Church of Scotland sold its kirk in the village a decade ago: it is now a mosque. The Protestant congregation has lacked a minister for nearly two years and is down to about 70 souls, easily out-numbered by the 400-500 Muslims who attend prayers in Carfin every Friday. For it is Islam that is the big growth religion in Lanarkshire just now. The county's Muslims have outgrown the Carfin mosque and have raised £2m for a new one. They have set up mosques in two other towns and are looking for a site in a third.

But as the old sectarianism dies out, is it being replaced by a new sort of bigotry? Ghulam Siddiquie, a spokesman for Lanarkshire's Muslims, says that the local people are very helpful in trying to stamp out racism. But anger still smoulders at the bungled investigation and prosecution of the white men believed to have murdered a Sikh, Surjit Singh Chhokar, in a stabbing in a street near Wishaw in 1998. The new wave of immigration has brought with it its own problems, more familiar to the inner cities of England than the historical divisions of Belfast.

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Starring role for provincial cities

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From The Economist print edition

BRITAIN'S film-makers were cheered this week when Hollywood's finest, not noted for generosity to non-American productions, nominated "Billy Elliot", a modest, heart-warming British film, for three Oscar awards. The tale of a lad from a North-East coal-mining town battling peer scorn and family expectation to achieve a dream of being a ballet dancer is vying with the likes of "Gladiator", a big-budget bloody Roman epic, predictably up for 12 Oscars.

It looks like a match dreamt up by a script-writer; plucky little Brit-film squares up to Yankee studio giant. Except that the storyline doesn't quite fit the facts. "Gladiator" was directed by a Brit, Ridley Scott, and used a lot of British technology. Moreover, the opening battle scenes were shot in Britain, with the wild Surrey woods doubling as barbarian-infested Bavarian forests.

Last year was a record year for spending in Britain by foreign producers. The Film Council reckons that £540m was spent by overseas productions, a 33% increase on 1999. And Britain seems to have found itself a comfortable niche, masquerading as other places.

Provincial cities, in particular, are getting a chance to double for more glamorous, and expensive, locations. "The House of Mirth", with Gillian Anderson, star of "The X Files", a TV series, playing the tragic heroine, is set in late-19th-century New York, for which, apparently, Glasgow is a reasonable facsimile. Scotland's smallness helped make the switch worthwhile. Olivia Stewart, the film's producer, says that she got all the right locations near each other in Scotland. In America, she would have had to use several American cities. That would have been expensive. Getting a £1.7m subsidy from the lottery and the Glasgow Film Fund also helped.

Liverpool, in particular, looks to be on to a nice little earner. Last year, five feature films were made in the city. They included "Al's Lads", a film about some Liverpool strongmen who wound up in 1920s Chicago working as henchmen for Al Capone. It was entirely shot in Liverpool with, a little uncomfortably, Liverpool's town hall doubling as Chicago's corruption-ridden city hall.

The biggest-budget film made in the city so far is "The 51st State", a $28m British-Canadian action comedy starring Samuel L. Jackson and Robert Carlyle, to be released later this year. It got £2m from the lottery, but Lynn Saunders, who runs the Liverpool Film Office, reckons that the city has established enough of a film-friendly reputation for subsidies to be incidental to winning more productions.

She estimates that films brought about £12m into the city's economy last year, helping to support such film-orientated businesses as ten casting agencies, each with 500 people on their books. The city council tries to help, too: in cinematic city locations, parking meters are installed in such a way that they can easily be removed to give that historic feel.

Still, starring in a film is not always good for a city's morale. In 1983, "An Englishman Abroad" depicted the life in Moscow of Guy Burgess, a Briton who spied for the Soviet Union. Much of the film was shot in Dundee. A critic wrote that these scenes looked so authentically Soviet that he feared for Dundee's citizens.

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Aviation

Jumbo noise

Feb 15th 2001
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London puts up with more aircraft noise than any other capital city, but the government may soon be forced to quieten things down

EVERY morning between 4am and 6am, 16 passenger planes, mostly jumbo jets, arrive from Asia and America and land at Heathrow Airport. As their flight path takes them directly over central and west London, they shatter the early-morning sleep of hundreds of thousands of Londoners. From 6am to 7am, a plane lands every 90 seconds. In the past decade, the number of night flights—those arriving between 11pm and 7am—has more than doubled.

Why do so many planes have to land at such unsocial hours? In part because governments and people in the countries where those flights originate are not willing to put up with the disturbance of flights that leave at night. Of the world's top ten airports, only Heathrow allows some of the noisiest modern aircraft to fly over inner-city residential areas at night. Most big airports are sited well away from the cities they serve. Many, including Tokyo's Narita and Sydney's Kingsford Smith airports, ban night flights.

British governments have spent years defending the interests of the aviation industry against sleep-deprived residents. But official claims that Heathrow's noise regime is the tightest in the world, and that night-time noise levels are falling, have stretched judicial patience. In 1983, when the first attempt to secure approval for a fifth terminal at Heathrow was made, Graham Eyre, the inquiry inspector, described night flights as "a particular curse", and recommended that they should be banned. Mr Justice Sedley, who presided over a judicial review in 1995, described the first government consultation paper on noise as "a farrago of equivocation" and "devious and deeply unattractive" in its presentation and reasoning.

The government has been challenged in four judicial reviews. In each case, after victory for the anti-noise campaigners in the lower courts, the Appeal Court found for the government. But now the government's policy faces its biggest challenge yet. In the next few weeks, the European Court of Human Rights will pass judgment on a case brought by a coalition of local authorities and noise pressure groups, challenging the permitted noise levels at Heathrow. The plaintiffs say that two articles of the European Human Rights Convention have been breached—Article 8, which guarantees "respect for private and family life" and Article 13, which provides for "an effective remedy before a national authority".

Both the economic and the scientific basis of the government's case look weak. Ministers have been forced to concede that they have not made any attempt "to quantify the economic benefits of night flights or to draw up a balance-sheet including the environmental disbenefits". If no assessment has been made, it is hard to know how the government has attempted to balance the competing interests involved.

BA says its business would be damaged if night flights were prohibited. The British Air Transport Association has suggested a value of £20m-30m ($30m-45m) per year for each scheduled night flight. Perhaps, but a study by Berkeley Hanover Consulting, submitted to the court, concludes that night flights have "a totally insignificant impact upon the economy" as a whole.

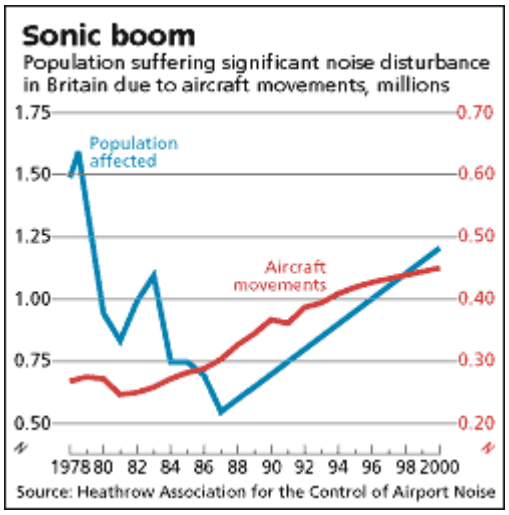
The government's scientific evidence relies on a 1992 study that sought to show that aircraft noise causes little or no disturbance to sleep. The study, conducted by the Department of Transport, defined sleeplessness as "disturbance within sleep itself". This definition neatly excludes nearly all those whose nights are disturbed by incoming aircraft. If someone, for instance, is woken at 4am by a Boeing 747 coming in from Hong Kong and then cannot get back to sleep again because of new planes landing every six minutes, their inability to get back to sleep is not recorded in the research.

The study's methodology has also come in for criticism. It involved fitting 400 subjects with wrist-watch

devices known as “actimeters” as a way of measuring periods of wakefulness. The research found an average of 45 wrist movements per person every night. This, according to the study, meant that the subjects were waking up every 18 minutes. The researchers found that these states of “arousal” corresponded rarely with overhead aircraft, and so concluded that aircraft noise had little or nothing to do with sleep disturbance. But critics say that such clumsy methodology cannot be relied on as a basis for policy.

Anyway, claims the government, things are getting better at Heathrow. Planes make less noise than they used to. But this comfortable view rests on a 1982 social survey assessing the impact of aircraft movements on residents. Certainly, aircraft have got quieter since then; but, according to noise campaigners, the increase in the number of planes more than makes up for the fall in the noise level from each one (see chart).

As the campaign against noise escalates, the story of Terminal 5 is rolling slowly to a close. It looks increasingly as though the two may be resolved together. Although the inquiry is widely expected to give Terminal 5 the go-ahead, the inquiry inspector, Roy Vandermeer, is understood to have been impressed by the evidence about the defects of the studies on which the government is relying. Whatever the European Court decides, his report, to be published probably in June, will be crucial in determining whether the government decides to change tack.



There may be a deal to be done: Terminal 5 (which the industry wants and the residents don’t) in return for a night-flight ban (which the residents want and the industry doesn’t). BA remains resolutely against a night-flight ban; but the British Airports Authority, which runs Heathrow, has said *sotto voce* that a ban might be a price worth paying, and some ministers support the idea of a deal. Time for BA to start losing sleep?

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Hope in the Horn

Feb 15th 2001 | ADDIS ABABA AND ASMARA
From The Economist print edition

The creation of a United Nations buffer zone between Ethiopia and Eritrea should spell the end of a bitter border war. But some basic problems endure

"WE ARE doomed to succeed here," chuckles Legwaila Joseph Legwaila, the United Nations special representative for Ethiopia and Eritrea. He has reason to be cheerful: his staff have recently persuaded those two countries to start implementing the deal that ended their two-year war last December. Ethiopia has already begun pulling its troops back from the front line. Eritrea was due to follow suit this week. By March 3rd, the rival armies should be separated by a buffer zone of 25km (15 miles)—the maximum range of most artillery in the area. Peacekeepers will then fill the gap, a special commission will decide exactly where the border should run, and a nasty dispute will be laid to rest.

Alas, as Mr Legwaila knows, it is unlikely to be so simple. The UN would like a quick African success, after troubled peacekeeping forays into even messier conflicts in Somalia, Rwanda and Sierra Leone. But this mission could also get bogged down amid squabbles over the demarcation of the border. After all, the war itself quickly escalated from a minor border dispute into a ferocious and protracted fight that cost between 20,000 and 100,000 lives. The two sides fought one another to a standstill last June before agreeing to come to peace. The legacy of vitriolic propaganda and mass deportations will be hard to overcome. So will the bitterness between the countries' leaders, Meles Zenawi of Ethiopia and Issaias Afewerki of Eritrea, whose once-firm friendship helped smooth Eritrea's peaceful secession from Ethiopia in 1993. To get this far, Mr Legwaila concedes, he has had to nurse "some very sensitive egos".

At least there are now some UN soldiers on the ground—although a Jordanian contingent, which turned up five weeks ago, has not yet left its airport camp at Barentu. The peacekeepers' positions reflect the fortunes of battle, rather than the merits of the two sides' territorial claims. Ethiopia had the best of the fighting, and so its troops now sit deep in Eritrean territory. In the west they advanced over fertile plains as far as Barentu, and in the east they struggled half-way across the desert that divides landlocked Ethiopia from the port of Assab. But the fiercest battles were in the centre, where both countries claimed towns such as Zalambessa.

That prize, too, is now in the Ethiopians' hands, though it will do them little good. Once a bustling border town, Zalambessa has become a heap of rubble, punctuated by twisted metal-and-tarpaulin shanties. Every building save the church was demolished during the Eritrean retreat, and the main road is mashed by tank tracks. Strips of corrugated iron give shade to civilians, who this week watched Ethiopian soldiers pull back from positions around Senafe.

Ethiopia's claim to Zalambessa is based on administrative history: it ran the town, as indicated by its

ruined customs post and central-bank branch, and the tattered advertisements for Pepsi (Eritreans drink Coke). To bolster their position, Ethiopian soldiers have built a new wall and trench along the northern edge of town. Eritrea's claim depends on cartography: almost every map issued since colonial times shows Zalambessa, and many other areas now claimed by Ethiopia, in Eritrean territory. And if colonial lines are ignored, says Eritrea, then all of Africa's borders will be up for grabs.

The hope is that a commission of five lawyers will now resolve what two years of fighting could not—in Zalambessa and all along the border. Each side has nominated two of them, who will together select a fifth as a neutral tie-breaker. The commission is supposed to demarcate the border based on the historical record. But it will doubtless make allowance for the fact that Ethiopia has the upper hand militarily. The whole business will almost certainly be acrimonious as well as time-consuming.

Not all the disputes are territorial. The Red Cross says only 1,000 prisoners of war have been sent home, leaving at least another 2,500 still in captivity, in addition to unknown numbers of civilian detainees. Demobilisation will also be difficult. Over 500,000 men and women are still under arms, and each side plans to demob just 60,000 troops this year. Even that paltry effort will depend on hand-outs from the World Bank and other donors.

Hundreds of thousands of refugees will now want to head home from makeshift camps, mainly in Eritrea. But those returning to places like Shambuko will be disappointed. Their homes have been blown to bits, hulks of burnt-out tanks litter the streets and red triangles flutter gaily all over the town warning of unexploded bombs and landmines.

But the civilians must get home soon, to plant crops before the rains start, which is usually in May. The World Food Programme says that as many as 9m people may need aid this year in the two countries because of drought and war. Any economic recovery, in Eritrea in particular, depends on getting soldiers and refugees back into the fields. With luck, the two sides will have more important things to do than argue.

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Algeria

Sour cherry

Feb 15th 2001 | CAIRO
From The Economist print edition

MUCH faith was put in the “Bouteflika effect”. When Abdelaziz Bouteflika was elected Algeria’s president in April 1999, many people persuaded themselves that all would be well, or at least better. His election victory may have been manufactured, his policies vague and his dependence on the army clear, but at least he promised to put Algeria’s seven-year insurrection to an end.

EPA

An odd sort of concord

Less than two years later, the faith has evaporated. Mr Bouteflika and the army leaders who gave him the job are locked in a power struggle. Meanwhile, massacres and ambushes continue in the countryside. On February 11th, for example, guerrillas slaughtered 27 civilians, including 13 children. As ever, there was no wholly plausible explanation for the violence, nor for the army’s failure to crush those who had committed it.

The president is facing an unprecedented wave of criticism from the Algerian press, and even from the parties in the government coalition. They say that he does not consult with people, that he travels abroad too much and, most damningly, that his “civil concord” peace initiative has failed. They even say that the amnesty he championed for Islamic militants who have surrendered has fuelled an increase in violence by giving the impression that there is no need to fear punishment. According to one analyst, Mr Bouteflika “has become isolated, and there is an attempt to lumber him with more than his fair share of responsibility. It is a sign that relations between him and the army are in crisis.” A recent newspaper editorial put it more bluntly. It said that the soldiers regretted having chosen Mr Bouteflika.

The dispute between the president and senior officers is more about influence than political vision. Mr Bouteflika was brought in to polish the regime’s image after years of bloodshed. But, saying that he does not want to be “the cherry on the cake”, the president has been trying to exercise his full constitutional powers, including the appointment of top officials. The army, long accustomed to running the country from the shadows, resents this encroachment.

The soldiers are also disappointed by Mr Bouteflika’s failure to shield them from an unending flow of embarrassing questions from human-rights organisations. Despite inviting such groups to visit Algeria, Mr Bouteflika has not succeeded in stemming their criticism. Former officers continue to accuse the army of involvement in past massacres—prompting pressure-groups to demand interviews with the top brass.

Meanwhile, after falling for a few years, violence is on the increase again. Over 500 people have been slaughtered in the past two months. Shadowy bands of killers continue to wipe out entire families in attacks on isolated communities in western Algeria. The army’s intelligence is not good, and the militants do not follow a predictable strategy. Some people, however, suspect that the killings suit the broader purposes of those in power. They show that “civil concord” is a myth—so the army must keep control.

More worrying for the generals, say diplomats, is the number of soldiers killed by the Salafist Group for Preaching and Combat, which operates in the centre of the country. Rumours speak of some 200 soldiers recently killed in efficient assaults. Unlike the throat-slitters of western Algeria, the Salafis confine their attacks to military targets. The army has recently bombarded the group’s hideouts in the forest of Sidi Ali Bounab, but the results are uncertain. Indeed, the entire military situation, like most pressing questions in Algeria, is opaque.

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Zimbabwe's beans and bicycles

Feb 15th 2001 | HARARE
From The Economist print edition

OFFICIALLY, one American dollar will buy you 55 of the Zimbabwean kind. But Harare's money-changers will happily give 70 or 80, unless you ask for a receipt, while industrialists looking for foreign exchange must part with anything up to 100 Zim dollars to get hold of a single greenback. With hyperinflation looming, no one wants to hold the local currency. All this is illegal, but Zimbabwe's insane currency controls have made criminals of many honest people.

Zimbabweans cope with the shortage of the dollars that count in various ways. The government grabs them from other people. On February 9th, it told the country's banks to start selling all their hard-currency inflows to the central bank and the state petrol-importing monopoly, at the official rate. It said that Zimbabwean embassies abroad face power cuts because they cannot pay their bills. But if staff in Moscow felt chilly, the grab did not warm them. Exporters told their customers to delay payments. Hard-currency inflows fell by some 90%, forcing the government to relent.

Businessfolk were relieved. The economy is so stormy that many exporters stay afloat only by selling American dollars on the black market. Others try to keep their foreign earnings offshore. This is not easy, since most sell tobacco, gold, roses and other goods that can be observed and recorded as they leave the country. But some quietly set up overseas subsidiaries to buy their own products at artificially low prices. The subsidiary then sells the goods to the real buyer, and keeps the proceeds abroad.

Since petrol, which must be imported, is scarce, some employers give their staff bicycles. But the two local bicycle makers have gone bust, so bicycles must be imported too. Where possible, local products are substituted for imports. One firm, for example, has devised a way to make glue using oil from locally-grown castor beans instead of petroleum-based chemicals. But even the simplest products often have imported components. One manufacturer found it could not make first-aid kits, because it could not obtain zips for the bags. The local zip-maker had no dollars to import small but essential metal studs. An order worth $8,000 was lost for want of perhaps $100 in hard cash.

Rich individuals are putting their savings into tangible assets, though not houses or land, which they fear the government may seize. Instead, they buy movable goods such as cars or jewellery. Unlike the Zimbabwean dollar, such assets do not lose half their value every year. Jewellery is also an easy way to move money abroad. Wear it on the plane, sell it in London, and leave the money there. The poor have fewer options. A typical unskilled wage now buys a loaf of bread and a litre of milk a day, plus the bus fare to work. For most poor Zimbabweans, the only hedge against inflation is to plant maize in the back yard and hope they can harvest it before their landlord evicts them.

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Palestinians

Shaky solidarity

Feb 15th 2001 | CAIRO
From The Economist print edition

THE *intifada* is exacting not only an appalling human toll, but also an economic one. According to a recent UN report, unemployment in the Palestinian territories has tripled, to 38%. Absolute poverty has grown by 50%. GDP has fallen by half. The total loss so far—excluding damage to property and the cost of looking after 11,000 injured Palestinians—is put at $1.15 billion.

Four months ago, amid general fervour, Arab governments promised to spend $1 billion to help the Palestinians. So far, precious little has arrived. With the exception of some generous private donations, and the $10,000 rewards that the Iraqi leader, Saddam Hussein, is dispensing, promptly and efficiently, to the families of Palestinian "martyrs", Arab aid is sunk in bureaucratic wrangling.

"Nothing has been received yet," says a senior Palestinian official at the Arab League. Though $1 billion may have been promised by Arab leaders, he says, the commitments from governments add up to only $600m. Less than half of that has actually arrived in the designated account at Saudi Arabia's Islamic Investment Bank, and only $70m has been earmarked for projects. Virtually nothing has been disbursed. Yet at a meeting of Arab foreign ministers last week, the talk was still of methods and means, not of the urgent need to hand over the money.

Part of the trouble is said to lie in the difficulty of securing Israeli permission for Arab officials to visit the West Bank and Gaza. More critically, many Arab states object to paying direct subventions to the Palestinian National Authority, the de facto government run by Yasser Arafat. Some countries doubt that the money will ever reach its intended recipients, while others, such as Libya, complain that Mr Arafat has conceded too much to Israel. The Palestinians find it ironic that their fellow Arabs are demanding firmer standards of openness and accountability than European countries, which have stumped up emergency aid while encouraging Israel to loosen its economic blockade.

Well spent or not, the money is desperately needed. At the moment, the PNA is borrowing at commercial rates in order to pay its 115,000 employees—who between them support one in four Palestinian families. "There is serious potential for a collapse of Palestinian government institutions," says a UN economist in Gaza.

But the hardest impact is being felt by ordinary Palestinians. About half of them have lost their primary source of income, and many have already run through their savings, according to the same economist; 1m are now living below the World Bank's poverty line of $15 a week. In the meantime, they are paying the same, if not higher, prices for essential goods as Israelis, whose average income is $350 a week. The Palestinians are not yet starving, but they may be before the promised Arab aid arrives.

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Nigeria

Bill, borrow and embezzle

Feb 15th 2001 | ABUJA
From The Economist print edition

SOUNDING only faintly embarrassed, President Olusegun Obasanjo claims that his government has no choice but to build the grand new stadium going up near the capital, Abuja. After all, it inherited the decision to hold the 2003 All-Africa Games in Nigeria from the military regime that came before it. But some spoilsports still wonder why a country that recently had to reschedule $23 billion of foreign debt is building a stadium due to cost at least 38 billion naira (around $347m at the official exchange rate). That is roughly the amount the government has budgeted for recurrent spending on education this year, and twice what it plans to spend on health.

Nigeria already has plenty of stadiums: in 1999 it held the FIFA World Youth Championships in eight international-sized grounds, including a huge one in Lagos, the country's commercial hub. But Lagos is in the south, and Abuja in the north. Mr Obasanjo explained that the stadium was being built for "political" reasons. It is a question of prestige: northern bigwigs are determined to have a stadium in their patch.

The project is just one of several issues that have made people question Mr Obasanjo's priorities. Before his election in 1999, the soldier-turned-politician was a member of the board of Transparency International, a Berlin-based group that campaigns against graft. He promised, in his inaugural speech, to wage an unceasing fight against the corruption that bedevils his country, and to assert the rule of law. Later, he set up a new anti-corruption agency.

Despite Mr Obasanjo's professed zeal, however, only one senior official—the head of the country's aviation authority—has been sacked for corruption, and not one has been jailed. Lawmakers have mocked attempts by the police to investigate MPs for corruption. Graft remains as much a part of doing business in Nigeria as ever, including, it appears, in the instigation of big-budget infrastructure projects that allow plenty of room for kickbacks to senior officials.

Mr Obasanjo has also talked a lot, but done little, about enforcing the rule of law and the constitution. The governors of eight mainly Muslim northern states have stretched the constitution to introduce their own form of Islamic law. Judges in one of those states, Zamfara, recently ordered the public caning of a 17-year-old girl who had become pregnant after being raped by three men. Last year, Mr Obasanjo said such punishments offended human rights, but he has done nothing since to stop them. He has also allowed southern, largely Christian, states to get away with equally suspect schemes for vigilante justice.

Meanwhile, life has not improved for the average Nigerian, who must put up with continuing fuel shortages, power cuts and mind-numbing bureaucracy. Perhaps with these failings in mind, Mr Obasanjo dissolved his cabinet last month. In came ten new ministers, including a banker and an industrialist who had never worked for the government before. Nigerians hope that the new team may at last bring about a change or two—other than building another splendid stadium.

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Reinventing Tata

Feb 15th 2001 | MUMBAI, PUNE AND JAMSHEDPUR
From The Economist print edition

India's oldest conglomerate must struggle to reform if it is to prosper in a more competitive world. This week's decision to privatise the Maruti car firm is only one of many challenges

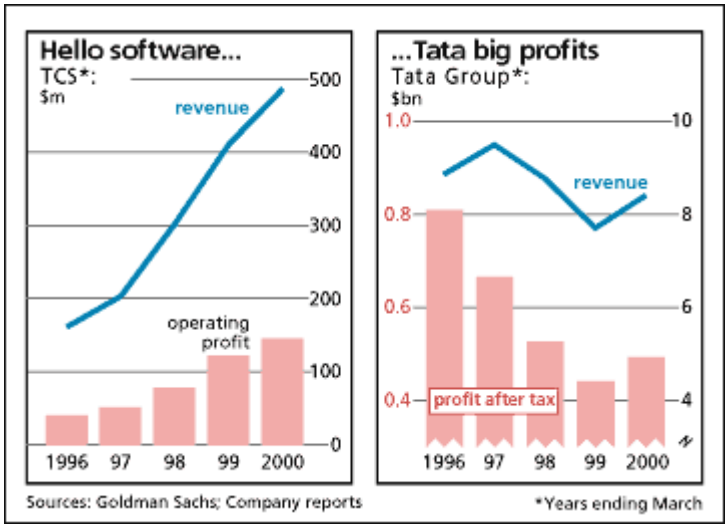
"TATA is a microcosm of India," says R. Gopalakrishnan, senior director of Tata Engineering, the heart of India's biggest conglomerate, the Tata Group. "It's huge, sprawling, complex, full of heritage, and it needs to change. But it is difficult to change."

The Tata family of rich, high-minded Parsee textile entrepreneurs based in Mumbai started the industrialisation of India 100 years ago, notably with the building of the first steel mill and a model new town for workers at Jamshedpur, 150 miles north of Calcutta. A generation later, it also founded Tata Air, which was later nationalised as Air India. Today, the group is bidding (with Singapore Airlines) to buy back Air India as it is partially privatised.

Tata is now a sprawling empire of some 80 companies ranging from steel, power generation and cars to tea, hotels and software. It has annual sales of over $8.5 billion and it prospered hugely behind the high tariff walls and barriers to inward investment that existed during India's days of post-imperial autarky. But as the country slowly deregulates and allows in foreign companies, the Tata behemoth is having to shape up and face entirely new competitors.

Many Tata companies have been failing to pull their weight of late. Ratan Tata, nephew of the legendary J.R.D. Tata who led the family group for nearly 50 years, points out that 11 of the 80 companies account for 85% of revenues and 90% of profits. So he has been getting out of some sectors, such as cement, a sluggish low-margin business, and others, such as toiletries, where Tata's market share had melted as competitors grew stronger. Now he wants to shape the group around seven businesses: metals and minerals, automotive and engineering, chemicals, agro-business, hotels, IT and power.

But reshaping Tata is not as simple as it might be for an American or European conglomerate. The group's structure was a labyrinth of cross-shareholdings among operating companies and tiny stakes held by the private holding company, Tata Sons Limited (TSL). The main task Mr Tata faced when he succeeded his uncle in the early 1990s was to re-establish some sort of control over the companies that bore the Tata name. "I found that the Tata stake had become diluted down to single figures. In the case of Tata Steel, for instance, we owned only 2%."



To tackle the problem of the small stakes, Mr Tata used a controversial ploy. He made a TSL rights issue, to which operating companies more or less had to subscribe, and revived an old royalty levy on their turnover for using the Tata brand name.

The tiny stakeholdings were only one problem in transforming the loose federation of companies bearing the family name. Equally important were the independent-minded nabobs who ran the operating companies and who had grown complacent during the years of easy living. Most of them were in their seventies and showed no signs of letting go, especially since they had no proper pensions. Mr Tata gradually introduced rules in each company, arguing his case board by board, to retire chief executives at 65 and chairmen at 70, easing their exit with new pension schemes.

Tata now holds, on average, 26% of its quoted operating companies, and Mr Tata is keen to advance that figure gradually to over 50%. In addition to strengthening the stakes of the holding company, he is beefing up central management. Tata's head office is a modest building in Mumbai's business district, anything but a bloated headquarters. In it, Mr Tata wants to create a lean corporate office of directors with enough clout to enforce discipline on the operating units.

Driving forward

Nothing illustrates the self-confidence of Tata better than the Jamshedpur steel complex, which produces hot-rolled coils of steel at a world-class cost of $160 a tonne, second only to South Korea's huge Posco complex which manages $154 a tonne. Jamshedpur achieves its spectacular efficiency through smooth operating of ancient but long-written-off blast furnaces that feed modern steel-making and rolling mills. The group has just invested $240m in a state-of-the-art cold-rolling mill to produce high-grade sheet steel for India's car industry, which has the capacity to make 1.5m cars a year.

While steel makes healthy profits for Tata, the same can no longer be said of Tata Engineering (formerly known as Telco), the heart of the traditional group. It long enjoyed a two-thirds share of the Indian lorry market, which it developed originally in conjunction with Mercedes-Benz. Since it cut that cord 30 years ago, it has produced its own lorries and seen off local competition from Japanese joint ventures, partly because it has wholeheartedly adopted Japanese manufacturing techniques at its factories in Pune. In the post-liberalisation boom of the mid-1990s, Tata saw its lorry sales soar by 30-40% a year. But that bubble burst, and Tata has cut about 4,000 jobs in the business as it has trimmed capacity.

The way Mr Tata tells it, the group sidled into car making, encouraged by its rout of the Japanese in the lorry market. Unfortunately, cars have not been so easy since Tata launched its first model, the Indica, a small saloon, nearly three years ago. Quality problems have damaged its reputation and led to expensive warranty claims. Mr Tata admits that he wanted to have a fifth of the market by now instead of just over 10%.

Not that the Indian car market is a pushover any longer. The streets of New Delhi and Mumbai may still be graced with stately old Morris Oxfords, churned out by Hindustan Motors as the

Ambassador model, but they are a period relic in a niche market. The Maruti small-car company is now the dominant force. Formed in the early 1980s as a joint venture between Suzuki of Japan and the Indian government of Indira Gandhi, it eventually captured 80% of the market, helped by government money. When Tata challenged it head-on in 1999, Maruti countered with new models and big price cuts. But the arrival on the market of both Tata and Hyundai from South Korea has pushed Maruti's share below 60%.

Jammed gearing
Tata Group companies
Nine months ending December 2000, $m

	Revenue	Profit after tax
Tata Engineering	1,273	-81
Tata Steel	1,250	79
Tata Power	663	74
Tata Chemicals	324	68
Hotel chain	113	17
Tata Tea	151	21

Source: Company report

Nearly all the world's leading car companies now have a presence in India, rather as they have in Brazil. But, for the moment, the competition and overcapacity is such that no factory is operating at more than half capacity. Given that car factories need to be operating at four-fifths capacity to make decent profits, this is a big problem.

The car-industry mess could be further complicated by the planned privatisation of Maruti announced this week. None of the world's car companies, to which the stake to be privatised has been quietly hawked, is much interested. The outcome is likely to be that General Motors (which now owns 10% of Suzuki and drives it from the back seat) or Tata will take up the Maruti stake.

Whatever the fall-out from the privatisation, Mr Tata already has a strategy to bolster his venture into the car market. He is negotiating a deal with the French PSA Peugeot Citroën group to develop a saloon version of its little 206 hatch-back. Such a vehicle would be manufactured in Peugeot's Brazil factory for the Latin American market, and by Tata at home for its local and South-East Asia market.

The deal is interesting in two ways: first, Indians rather than Europeans will be doing the high-value engineering development work, at one-third of the European cost; second, it could lead to closer collaboration with the French group, which might even buy into Tata's car business. Peugeot's chief executive, Jean-Martin Folz, is desperate to build on his company's purely European success by selective expansion in fast-growing markets such as India.

But Mr Tata has another option should the car venture prove onerous. Tata's computer consultancy, TCS, unlike other Tata group companies, is a wholly owned subsidiary of TSL. It is India's biggest software company by far, and has become the new lifeblood of the Tata empire. Its client list features many of the top American companies with whom it does business on highly profitable terms. TCS, founded more than 30 years ago, has its own range of software products and a reputation for on-site implementation. For some time, Tata has been considering a flotation of the company. Mr Tata will not commit himself to the timing, nor will he say what percentage of the shares will be floated. But, for sure, it is coming.

Tata, with its paternalistic, charitable heritage, cannot re-shape itself as blithely as an American or European group. "How could I get out of steel when 100,000 workers and 1m people in Jamshedpur depend on us, in a very poor part of India?" asks Mr Tata. Instead, at Jamshedpur, his managers concentrate on making their steelworks world-class, while elsewhere in the group they are prepared to take audacious moves, such as that into car making.

Mr Tata is adamant that he is not going to pour away the group's software wealth in traditional industries such as car making. But he knows that the harvest to be reaped from the software investment might have to carry Tata through some lean years ahead.

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Napster

And the band plays on

Feb 15th 2001 | SAN FRANCISCO
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Get article background

EPA

Shawn Fanning, Napster's founder, is not upset

THE music is still playing at Napster, the Internet service that allows its users to swap music files for free. But only just. On February 12th an appeal court partially upheld an injunction, granted last July, calling for the service to be shut down. The good news for the Recording Industry Association of America (RIAA), which had applied for the injunction on the ground that Napster was facilitating piracy, was that the appeal court rejected most of the arguments that Napster offered in its defence. But the court quibbled with the injunction in its current form, and asked for it to be slightly rewritten. So Napster's tens of millions of users, who faced the prospect of the service being unplugged, can continue to use it—for now.

Specifically, the appeal court complained that the injunction is too broad, in that it seeks to prevent all file-swapping activity via Napster. While the court agreed with the RIAA that Napster "knowingly encourages and assists" in the exchange of copyrighted material, it noted that a small amount of legitimate material is also available on the service. The court ruled that expecting Napster to be able to distinguish between legal and pirated music, and to allow trade in the former but not the latter, was unreasonable. So the new injunction will require record companies to inform Napster of specific examples of piracy, so that they can be removed.

If Napster fails to remove pirated files, it will be in breach of the new injunction, and since removing individual files from a decentralised service like Napster is essentially impossible, this will in effect force it to shut down. Preparation of the new injunction will take days, if not weeks, however, and Napster still has a few more cards to play. In particular, it can call for another hearing in front of a panel of judges, and it can then appeal to the Supreme Court.

Even so, Napster's defence is in ruins. The firm's suggestions that swapping of files by its users counted as "fair use", and that such swapping was protected by a previous case relating to the use of video recorders for time shifting, were both rejected. Worse, since the court determined that Napster knew its service was being used for piracy, it could now be found guilty of vicarious infringement by its users, and face huge fines.

The ruling is also bad news for Bertelsmann, the parent company of BMG, a record company that switched sides and formed an alliance with Napster last October. The idea was that in return for dropping its suit, Bertelsmann would work with Napster to create a legal, subscription-based service, and would encourage other record companies to co-operate. Napster users, after all, constitute the largest community of music-lovers on earth. The service claims to have over 50m registered users, and surveys show that most of them would be prepared to pay a monthly subscription.

But despite optimistic noises from Andreas Schmidt, chief executive of Bertelsmann's e-commerce group, that the subscription service would be ready for launch in June or July, none of the other "Big Five" record labels has signed up. And without their support, launching a legal version of Napster's "universal jukebox" is impossible. Mr Schmidt nonetheless insisted this week that "file-sharing is here to stay" and that teaming up with Napster was the right thing to do.

Rival firms offering legal music downloads, in some cases for a fee, are rubbing their hands with glee at

the prospect of a deluge of migrating Napster users. But the reality is that such services have so far failed to take off, largely because they offer a limited selection of music. It is far more likely that Napster users will flee to the dozens of alternative Napster-like services that have sprung up over the past few months, all of which have been designed to be far harder to shut down. By refusing to deal with Napster, the industry will then have missed an opportunity to move its users en masse to a legal service.

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Beef market

Contaminated

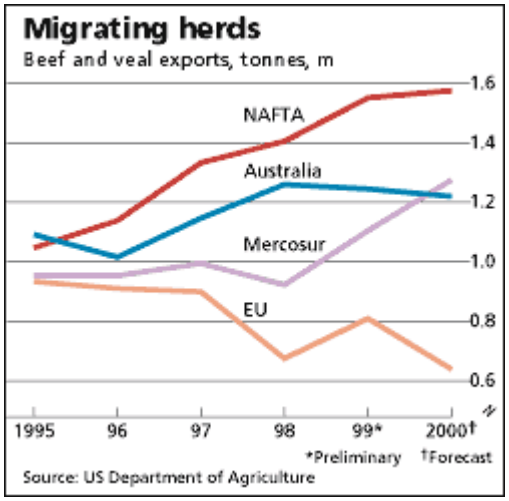
Feb 15th 2001
From The Economist print edition

AP

Fit for a table?

THANKS to wildcat bans on imports from countries suspected of harbouring "mad" cows, beef-price fluctuations in recent weeks have been madder than the cows. The problem of contaminated beef, and hence the market distortion, is worst in Europe. Along its fringes, countries that traditionally imported its beef have turned to other sources. Following French and German reports of mad cows, which carry a disease that could cause a fatal brain disorder in humans, Egypt banned all West European beef in November; Romania forbade imports of Italian beef in January; and Oman initiated a Europe-wide ban this month.

Most recently (and creatively), Bulgarian meat processors have begun to press for a ban on the country's own beef exports in order to crowd imports out of its market. The EU's share of world beef exports has been dropping steadily (see chart) since the first mad-cow scare, in Britain back in 1996.



Fears of mad cows have also reached the western coast of the Atlantic. Canada, which exports over half of its own beef production, initiated a NAFTA-wide hiatus on imports of Brazilian beef earlier this month on the basis that Brazilian herders had imported some European stock in 1999. Brazil has never had a confirmed case of mad-cow disease, but the ban is costing its exporters $1m a week.

Each import ban further segments the beef market: rather than a world market for a single commodity, traders are left with several markets with overlapping customers. Demand shifts away from mad-cow-suspected countries to safe countries, creating price fluctuations and necessitating new business partnerships. The Bulgarian and Canadian cases highlight an additional complication in the market: many exporters are importers too. This creates extra volatility in prices, as buyers of domestic beef switch to imports just as a country's exports are being curtailed. Beef prices in France, which finds itself in just that situation, were three times as volatile in 2000 as in 1996; prices currently stand about 25% lower than their highs of last September.

In the meantime, the world's "safe" exporters are expecting rising demand and warning consumers of higher prices to come. Argentina has rebounded from a foot-and-mouth disease alert last year to mount a massive marketing campaign aimed at enhancing its exports to Europe and Asia. So far it has obtained a commitment from Carrefour, the world's second-largest supermarket chain, to distribute Argentine beef throughout its 9,000 stores. Australian exporters also stand to benefit in nearby parts of Asia; Malaysia decided to ban European beef in January.

America has strictly forbidden the use of feed derived from animal products—an alleged transmitter of mad-cow disease—since 1997 and claims that its herd is the safest in the world. The discovery that some cows in Texas had eaten the feed last month resulted in a lightning-fast quarantine order from the Food

and Drug Administration. Nevertheless, America's beef industry might not be heading for salad days. The country's economic downturn is expected to depress domestic demand, dampening the effect of improved exports.

The beef market's tribulations have generated political heat. The European Commission, under fire for its failure to eradicate mad-cow disease on the continent, has initiated a slaughter of 400,000 cows in Germany as part of a new plan worth *euro*971m ($1.1 billion). Franz Fischler, the EU's agriculture commissioner, claims that beef's safety problems prove that farm products are different from all other commodities—a justification for Europe's protectionist Common Agricultural Policy. This assertion is sure to rile Europe's trading partners in advance of new multilateral talks that are expected to be launched later this year.

Canada's ban on Brazilian beef threatens to disturb global trade as well. Brazil considers the prohibition a form of retaliation for subsidies granted to Embraer, a maker of regional jet aircraft and the main competitor to Canada's Bombardier. Its president, Fernando Henrique Cardoso, gave Canada three weeks to reverse the ban or face an all-out trade war. NAFTA experts travelled to Brazil this week to test the country's herds for disease. As long as the "shoot first, ask questions later" approach prevails, the global beef market will continue to be a source of madness.

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Face value

Man on the run

Feb 15th 2001
From The Economist print edition

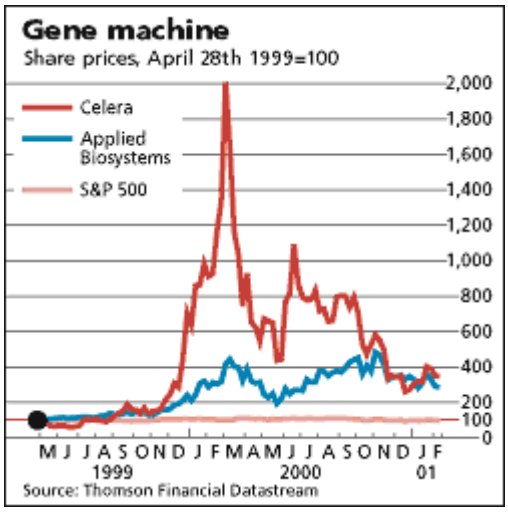
Tony White has managed to transform a sleepy scientific-instruments firm into a genomics powerhouse. That was the easy bit

WITH his easy manner, shrewd sense of humour and slight southern drawl, Tony White is a far cry from the popular perception that a high-tech executive should be unpredictable and slightly peculiar. Yet Mr White is head of Applera Corporation, whose two component businesses—Applied Biosystems (ABI) and Celera—lead the genomics revolution. He harbours an exceptional ambition: to build Applera's shareholder value by industrialising modern biology.

When Celera was created in 1998, its goal was ambitious too: to sequence the human genome in three years, becoming the "Bloomberg of biology" by selling access to the information in a comprehensive, user-friendly database. This week, Celera published its version of the human genome sequence (see article), completed 18 months earlier than the division's president and chief scientific guru, Craig Venter, had predicted.

So far more than 30 institutional customers have subscribed to the web-enabled database since it was launched. While still not in profit, Celera's revenues in the year to the end of June 2000 were $42.7m. In spite of its losses, though, Celera's shares have risen more than threefold since the tracking stock was launched two years ago (see chart).

The key to Celera's success, according to Mr White, was the idea that the genome could be cracked by using a factory full of automated sequencing machines and powerful computers. This is in stark contrast to the cottage industry of international laboratories making up the rival publicly financed Human Genome Project, which spent years piecing a sequence together.



Even though the public project has criticised Celera's approach, it has had to take on some of its tools in order to keep up. Chief among these is the world's most efficient gene sequencer which, conveniently enough for Applera, is made by ABI. When Mr White first joined as head of the firm in 1995, ABI was subsumed in Perkin-Elmer Corporation, a struggling conglomerate making analytical instruments mainly for the slow-moving petrochemicals industry. By focusing it on biology instead, he built it to a point where it has a market capitalisation of $15 billion. Sales in its last accounting year were $1.4 billion, and are expected to grow this year by more than 20%.

According to Mr White, ABI's close relationship with Celera is mutually beneficial. Not only does Celera gain early access to new equipment, but it can also help shape the technology to its needs. And for its part, ABI has a convenient testbed for its prototypes, as well as a ready source of genetic information to add value to its equipment.

Racing to start

Adding value, or rather making money, is Mr White's forte. As he admits, science is not his strongest suit. He comes from a background of sales and management at Baxter International, a medical-devices company. The vision of building Celera and leveraging ABI's technology was that of Michael Hunkapiller, head of ABI, and Mr Venter. Mr White leaves the technical breakthroughs to such scientific wizards. His job is to make sure that their grand ideas make good commercial sense, and to woo investors.

But there are limits to how much money his company can make just selling tools or genomic sequence. So Mr White has already started to pursue higher value businesses. In November, the company announced a new molecular diagnostics venture, combining ABI's technology with Celera's genetic know-how to tackle early detection of ailments. Applera also plans to extend its industrial approach to the body's proteins, and to discover how they interact in human disease.

In the long run, genomics and proteomics will probably transform the pharmaceutical business, helping drug makers to develop better drugs faster and with fewer side-effects. That is why such firms have been so keen to sign deals with genomics companies. But rather than hand over its ideas, Celera has decided to get into the drug-making business itself. Other companies have had a similar idea: Millennium Pharmaceuticals and Human Genome Sciences, two other American biotech companies with roots in genomics, have already moved into drug development and have home-grown products in clinical trials.

Mr White reckons that Celera will need the rest of this year to put its pharmaceutical strategy in place, deciding which areas to target, such as cancer vaccines, and hiring more good people. Although the firm is far behind rivals such as Millennium, Mr White is confident that Celera can race ahead. The company has good scientists, canny managers, great technology and more than $1.1 billion in the bank.

However, older pharmaceutical companies understand the chemistry of creating powerful drugs without poisoning patients, testing them in clinical trials, and getting them to market. Celera does not. Mr White's plans therefore include buying up bits of other drug makers, hiring top executives cut loose by mergers in the drug industry, and partnering with others when it comes to selling the goods.

Few in the industry are surprised by Applera's change of tack, but many doubt whether Mr White, for all his business acumen, will be able to pull it off. Drug making sounds easy when you break it down into its component parts, but it takes time for the whole to gel, and Celera's past success is no guarantee of its future in such uncharted territory. Mr White is keen to take his company in a new direction. But, as Franklin Berger, a biotech analyst at J.P. Morgan Chase, points out, the firm may find the bumpy road of clinical drug development rather harder going than the super-highway of genomics.

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Corporate governance in France

Where's the Michelin woman?

Feb 15th 2001 | PARIS
From The Economist print edition

This week's dispute over the Schneider/Legrand merger shows how far France is behind in matters of corporate governance

ON MANY issues of corporate governance, France is way behind best practice. Michelin, for example, the world's biggest tyre maker, is one of France's best-known and most international companies. Its shares are listed on the CAC index of France's 40 leading companies by market value, and it sells its products all over the world, so much so that its home market accounts for only 15-20% of its sales. So how many members of its board come from outside France? None.

In fact, Michelin barely has a board to speak of. Although its shares are listed in Paris, it remains family-controlled. And although it boasts a supervisory board, in practice it is run by an all-powerful triumvirate of so-called managing partners, two of whom are scions of the Michelin dynasty. Among the CAC40, it and Lagardère, a defence group, are examples of an odd French company structure whereby shareholders hand over power to management and retain almost no scrutiny over their decisions. The remaining 38 companies in the index have more typical limited liability structures.

Small wonder, then, that Michelin has one of the worst corporate governance records in France, perhaps in Europe. A recent study by Korn/Ferry, a headhunting firm, says that Michelin is the only member of the CAC40 that has made no progress towards meeting the standards set by the second of the two Viénot reports (published in 1999) on how to improve corporate governance. The issue is especially fraught because foreign investors own around 40% of the shares in the CAC40 and have been pushing for greater openness.

According to the Korn/Ferry study, Michelin is increasingly isolated. Of the leading 40 companies, only two others have failed to implement all of the rather limited recommendations of the first Viénot report (published in 1995). One is Cap Gemini, a consulting group that recently merged with Ernst & Young and which gets barely any scrutiny from outside directors. The other is Sodexho, an international food and business-services group that is heavily influenced by the Bellon family, which owns a 41% stake. Like Michelin, it has no non-French board members despite depending on external markets for nearly 90% of its turnover.

In general, corporate governance at big French companies is steadily improving. But progress towards the more ambitious goals of the second Viénot report is slow. The goals include such measures as the separation of the roles of chairman and chief executive, full disclosure of the boss's pay and stock options, and the appointment of independent directors. According to Korn/Ferry, a group of six companies is clearly ahead of the pack: Air Liquide, Alcatel, Aventis, CCF, Crédit Lyonnais and Schneider. But none is perfect.

Take, for example, Schneider's recently agreed *euro*7.9 billion ($7.3 billion) bid for Legrand, a merger that would form one of the world's biggest suppliers to the power industry. Although the Schneider offer represents a handsome premium on the Legrand share price, some of Legrand's minority shareholders—holders of "preferred" shares that carry an extra dividend but no voting powers—believe they are being short-changed by some 43% in comparison with Legrand's ordinary shareholders (who include Legrand's directors and the company's founding families).

Schneider and Legrand dispute the charge hotly. They note that preferred shareholders would be getting a premium of 25.5% compared with their shares' closing price a month ago; that the offer prospectus has been approved by France's stockmarket regulators; and that the protesters represent less than 6% of the outstanding preferred shares and less than 2% of Legrand's issued capital.

No matter. The preferred shareholders, who held an international conference call last week to discuss tactics, are fighting back in the knowledge that bad publicity will surely harm the merged group's prospects on Wall Street. Whatever the outcome, the protesters have gained some useful time: the Paris Appeals Court decided this week that it would delay a hearing on the dispute until April 3rd, forcing Schneider to extend an offer deadline originally set at March 7th.

Of the Korn/Ferry study's other stars, Crédit Lyonnais scores well for clear disclosure of pay and its governance principles, but it is a laggard in having only one independent director. In the United States, companies' boards increasingly have the complete opposite—only one non-independent director, the chief executive.

Plenty of outside directors have been appointed to French companies in recent years, but hardly any last year. Likewise, French companies stalled on appointing foreign directors last year. One in five directors is now non-French, against one in ten five years ago. But that proportion hardly budged in 2000. The same can be said for the number of female directors. It has doubled since 1997, but women occupy a modest 6% of board positions. About time for a Michelin female director?

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Russia's overseas investment

Comrade capitalist

Feb 15th 2001 | KIEV, MOSCOW AND WARSAW
From The Economist print edition

Cash-rich Russian firms are exporting their secretive practices around the former Soviet empire

THE ex-communist countries of Eastern Europe are becoming increasingly twitchy about Russian economic influence in the region. The story varies country by country, but the two basic elements are the same: Russian companies, especially in the energy industries, are awash with cash; and the means that they use in their foreign investments and contracts (and their ultimate ends) are often questionable.

The easiest targets for Russian investors are debt-ridden, badly run companies in poor, politically weak countries. In basket-cases like Georgia, Moldova and Ukraine, the main tactic is to use energy debts. These run to hundreds of millions of dollars and are practically unpayable—so Russia swaps them for shares in installations such as pipelines and refineries.

In Ukraine, which has been leaning towards Russia politically in recent months (see article), Russian investors have snapped up a bunch of important industrial companies, including the $70m sale of 68% of the Zaporizhia aluminium smelter to the Russian car maker Avtovaz. In addition, Alfa, a well-connected Russian holding company, has bought a majority stake in a Ukrainian oil refinery, and a television and radio station.

In most of these deals, the motives are clearly commercial. Whereas western investors tend to run away screaming when confronted with Ukrainian factories and the bureaucrats that plague them, Russian companies have the political clout, the experience, and the access to cheap energy, to make them work better—or at least less badly. Although the Ukrainian government has tried to block some of these deals, few feel in a position to quibble.

In wealthier and more independent-minded countries, the prices are higher and the obstacles greater. Russia's national gas company, Gazprom, tried secretly last year to take over Hungary's second-biggest chemicals company, BorsodChem, using an Irish-based shell company. Balazs Horvath, the former head of Hungary's security service, said Gazprom's behaviour was "an extremely serious national security risk".

There is a similar twitchiness in Poland, where another Gazprom wheeze came badly unstuck last year. The company, together with local partners, had built a new pipeline across Poland, which started pumping gas in September. In December, however, it emerged that Gazprom had also used the route for a high-capacity fibre-optic cable—and had neither informed, nor paid, the Polish authorities. Enraged Polish peasants cut the cable.

Gazprom's local partner, Bartimpeks, has prospered hugely thanks to its remarkable good luck in gaining a franchise for the country's gas imports. Bartimpeks has no fewer than 17 former ministers and senior officials on its payroll. Its owner, Alexander Gudzowaty, is the closest Poland has to a Russian-style "oligarch", and is a lavish supporter of political and charitable causes. At one particularly spectacular party for the Polish political elite, he flew in musicians from the La Scala opera house in Milan, as well as a senior Russian politician, whose presence in Poland came as a complete surprise to the government.

Other Russian interests in Poland are also attracting scrutiny. Large lumps of property belonging to Communist-era organisations (such as the former Warsaw headquarters of Soviet military intelligence) are now rented out to private tenants. What happens to the rental income is unclear. Polish officials also worry about shadowy Russian-backed intermediaries gaining a role in the country's oil business.

There are two possible dangers in all this. One is that Russia will be able to regain some influence in its

former empire among cash-hungry politicians and officials. Another is that it may be able to block efforts to diversify energy supplies. Bartimpeks is lobbying hard against a planned new Polish gas pipeline to Norway; Poland currently imports 80% of its gas, all of it from Russia.

How much this matters is another question. Public opinion in most East European countries is still Russophobic. Any political influence would have to be so discreet as to be largely useless. And even for a monopoly provider, gas is a hard weapon to use. Cutting off supplies for political reasons to weak, faraway countries like Georgia is one thing. But Poland is much less dependent on gas, has a much stronger economy, and is both a NATO member and hopes soon to join the European Union. Any attempt by Russia to muck around would be both ineffective and damaging to plans to sell gas elsewhere.

Not all captive nations are as jumpy. Estonia, which suffered grievously under Soviet occupation, was quick to welcome investment by Gazprom in its national gas company. (To be on the safe side, though, it also sold an equally large stake to Germany's Ruhrgas.) The Estonian government argued that this would give Russia a stake in their country's prosperity, and therefore less reason to make mischief.

However, until Russian companies are more transparently run, and for as long as the Kremlin seems unable to get over its imperial hangover, countries like Poland and Hungary will be understandably edgy—even about deals which from a business point of view make undeniably good sense.

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Globalisation to the rescue

Feb 15th 2001 | KOSICE
From The Economist print edition

KOSICE, the second city of Slovakia, is an old-fashioned company town dominated by the steel plant of the East Slovakian Ironworks (VSZ). Unemployment in Kosice (pronounced kosh-itz-ee) is high, but VSZ employs 24,000 at wages higher than the national average. A third of the families in Kosice, reckons a city official, have a relative working at the plant.

Few of the company towns spawned, like Kosice, by communist autarky have been so lucky. The saviour of those that have has invariably been a western company that has spotted a promising industrial plant at a good price, and has then injected money and management skills to turn the place around—witness Volkswagen's success with the Czech company, Skoda Auto, and the ensuing prosperity for Skoda's company town of Mlada Boleslav. Kosice's saviour has been the Pittsburgh-based US Steel, which bought the company in November last year for $500m, $325m of which was in assumed debt. The American company also agreed to pump in $700m of new investment and to guarantee that there would be no forced redundancies for 17,000 of the workforce for ten years.

As befits its local importance, the steel plant is built on the scale of Darth Vader's Deathstar. There are clinics, schools, shops, banks, even a travel agent, "Ferrotour". One hall is over a mile long. A grey glinting blizzard of iron flakes falls like snow in the smelters where, with computerised precision, vats of molten iron begin their journey of treatments—a journey which ends in shiny value-added products like tin-coated metal for cans or galvanised automotive steel, which is where the margins are made in today's steel business.

The Slovak prime minister, Mikulas Dzurinda, for whom the sale of VSZ to a western strategic investor was a political imperative, received a congratulatory telegram from Bill Clinton after the deal with US Steel was signed—as well he might. VSZ accounted for 10-20% of Slovak exports in the 1990s and the plant still accounts for 15% of Slovak GDP, says John Goodish, the newly appointed head of the business. Had the deal failed, the whole of eastern Slovakia, not just Kosice, would have suffered. The economic hopelessness of Ukraine, locals ghoulishly speculate, would have moved west and swallowed them up. At the very least, the failure of VSZ would have put off Slovakia's hopes of joining the European Union.

The US Steel takeover marked the end of a crisis that had been running at VSZ (now called US Steel Kosice) since 1998. The problems for the company began when it was farmed out by Vladimir Meciar, Slovakia's populist-nationalist leader until 1998, to Alexander Rezes, one of his cronies. Mr Rezes and his family, using the steel-producing core of the company as collateral, then went on a spending spree. They bought up a number of unrelated businesses, including Sparta Prague, Central Europe's top football club. In October 1998, the banks threatened VSZ with bankruptcy. A Slovak-born American, Gabriel Eichler, who had overseen the transformation of the Czech state electricity utility, was brought in to sort things out.

Mr Eichler's first task was to sell off VSZ's odder acquisitions and fashion it into two parts: the core metal concern, to be sold on to US Steel—which already operated a successful joint venture at the mill—and a remnant VSZ which would hold a number of the mill's suppliers and a few other less saleable concerns, including a large Kosice hospital.

Next, Mr Eichler focused on getting the steel-producing core in better shape. That meant firing the worst managers, raising production, getting rid of exclusive supplier contracts, and actually making customers pay for the steel they received. Under Meciarism, much of the steel was never paid for. Stolen? "Let's just say somebody forgot to pay for $200m of it," explains Mr Eichler. It wasn't just the Rezes family benefiting, he carefully adds, but managers, trade unions, and customers too—anyone who knew how to work the system.

The results of the overhaul were immediate, say bankers who watched over the process. When it introduced competitive tendering for its suppliers, VSZ saw a 15% drop in prices. "It was not a challenge,

but an idiocy," Mr Eichler says wryly. But the turnaround was possible because the steel plant was a good one; new equipment was producing a decent product at competitive prices. US Steel plans to increase production from 3.3m tonnes last year to 4m this, despite a global oversupply.

Morale at the plant is high. Managers now speak constantly of customer care. "Quality used to be something of an afterthought," one admits. Workers say they no longer fear for their jobs and profess amazement at being consulted over company decisions. The arrival of US Steel has given new hope to the town of Kosice too. The Slovak government hopes it might become a sort of anchor tenant for foreign investors. The American company is playing its part by setting up an office to attract some of its customers to invest in Slovakia. There is talk of a BMW car plant on the way, and the city says it is hoping that a large electronics company will move in this year, bringing in another 4,000-or-so jobs.

It is not hard to see Slovakia's appeal. Its labour is among the cheapest, relative to its skills, in the world. "The biggest asset I have on this line," says Tony Pacilio, a Chicagoan who has been in Kosice for three years with US Steel's joint venture, "is my workers. The equipment is okay, but the workers are way better educated than back home."

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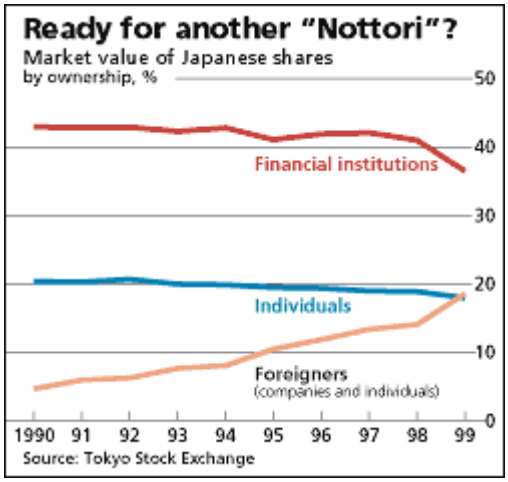
Japanese corporate raiders

Ever so polite

Feb 15th 2001 | TOKYO
From The Economist print edition

THE next time you are reminded that hostile takeovers are not done in Japan, mention “Nottori” Keita. Born in 1882, Keita “The Raider” Goto was the colourful founder of the Tokyu empire. Although he started off with a small railway company in the 1920s, he gradually built this up through a string of takeovers and mergers into a sprawling conglomerate. Mr Goto is best known for his hostile takeover of Shirokiya, a troubled department store in the heart of Tokyo in the 1950s. Now, half a century later, the spirit of “Nottori” Keita is making a bit of a comeback.

This is not the first time that such a change in Japan’s dozy corporate culture has been predicted. Huge shifts are taking place beneath the calm surface of Japanese business, but they are glacially slow and the timing of their impact is unpredictable. Cross-shareholdings between banks and their corporate chums, for example, are unwinding, and many of the freed-up shares have been bought by foreign investors. Thus, when Boehringer Ingelheim, a German pharmaceuticals company, made an unsolicited bid last year for SSP, a Japanese over-the-counter drugs maker, analysts predicted that a new wave of similar bids might follow. Some even forecast the imminent arrival of an “Anglo-American” M&A (mergers and acquisitions) market, where investment banks, company bosses and investors would wrestle for control of companies.



Japan might not be quite there yet, but signs of more rapid change have emerged over the past year. Thanks to the troubles of the banks, for instance, cross-shareholdings are getting dumped on to the market faster than ever. Fuji Bank, a huge source of previously unavailable stock, is thought to have recently dumped up to 2% of Canon’s equity.

Another sign of change is the work of M&A Consulting, a boutique set up by Yoshiaki Murakami, a former top bureaucrat. Mr Murakami made headlines last year with Japan’s first hostile bid, for Shoei, a raw-silk maker which now makes batteries. The bid failed, so Mr Murakami set off on a different tack, this time as an activist shareholder. He is currently raising funds from Japanese and American investors to back him.

The idea, says Kenya Takizawa, one of the firm’s three partners, is to take a gentler approach, buying stakes in undervalued companies, then working on their management to persuade them to change. There are pots of gold hidden everywhere, he says. Because the market is so inefficient, about one-tenth of Japan’s 3,500 listed companies have break-up values of more than twice their market capitalisation. Thanks to the pervasive system of cross-shareholdings, a listed subsidiary (such as Fuji Electric) will quite often own shares in its listed parent (Fujitsu) worth more than its own market value.

M&A Consulting’s medicine might be bitter for many managers, but it is a lot sweeter than some of the potential alternatives. For example, foreign asset-strippers are believed to be eyeing wobbly companies, especially in the property sector. Snow Brand, a milk company involved in a food-poisoning scandal last year, is talked about as one possible target because its share price has slipped as a result of the scandal. Using the same logic, other disgraced companies such as Bridgestone, a tyre maker, and Ajinomoto, another food company, are also potential targets. Meanwhile, there are rumours that international telecoms giants are sniffing around for bargains.

The key change in Japanese markets this time is in investors’ attitudes. Individuals and foreigners, who are increasing their stakes, have always been expected to vote in their own best interests. But now Japanese institutions are increasingly joining them. Two years ago, the Pension Funds Association, a

trade organisation, drew up new investment guidelines that require investment managers to vote their shares responsibly and solely in the interests of shareholders. Last month, the health and labour ministry came up with similar guidelines. Through public-pension funds, the ministry invests no small amount of money itself in the stockmarket. But the most important thing, says Nicholas Benes of Japan Transaction Partners, an M&A boutique, is the signalling effect: “People are coming to see what is the right thing to do.”

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Lessons of a virtual timetable

Feb 15th 2001 | LOS ANGELES AND SAN FRANCISCO
From The Economist print edition

The market for e-learning has been slow to take off. What does that say about its future?

PEARSON, a large British media group that owns 50% of *The Economist*, is betting much of its future on the market for online education. Already the world's biggest "education company", Pearson plans to dominate what Marjorie Scardino, the firm's chief executive, told analysts at the end of January is a potentially vast market for electronically delivered teaching material.

There is some evidence that her strategy might be sound. In America last year, total spending on education was a whopping $800 billion, and a government initiative to install electronic links in schools (known as the E-Rate) has ensured that 95% of all state schools, and 63% of all the classrooms in them, have Internet access. Moreover, 40% of all college classes in America already use Internet resources.

The supporting evidence does not all come from America, though. In Britain, Warwick University is proposing to make it compulsory for its students to have a laptop computer from 2003; almost all of them will have Internet links. And there is plenty going on beyond the bricks and mortar. Mrs Scardino says that this year "2m people will be seeking a degree online, and outside a campus." Even in China, Tsinghua University offers classes across the country via modem.

All that these wired pupils are waiting for, Mrs Scardino hopes, is online material to be delivered to them by Pearson, or by rivals such as Vivendi, a French media and engineering group, and Kaplan, an American career-guidance company. This month, Vivendi launched education.com, a portal through which parents, teachers and children can communicate and gain electronic access to material based on the books of its Havas media subsidiary. Other firms see opportunities in supplying universities with the software and advice needed to put their lessons and administration online.

Pearson believes that it has a trump card in the competition for this market: a software company called NCS that it bought last year which supplies enterprise resource planning systems to 40% of America's schools. These systems provide a platform for delivering and administering all sorts of electronic material, but in particular they are good at delivering the educational tests that promise to be a cornerstone of the Bush administration's education reform plan, with its heavy emphasis on comparative performance and accountability.

Dot college

Belief in e-learning, as it is often called, has so far weathered the downturn in the wider dotcom world. John Chambers, the influential CEO of Cisco, which supplies much of the Internet's hardware, asserts that the scale of network traffic generated by e-learning will make today's exchange of e-mail messages look like a rounding error. But his firm's business depends on an ever-rising flood of electronic data passing over the connections which it makes for electronic networks. More disinterested voices caution against confusing the obvious need to learn computer-literacy skills with the less obvious need to learn everything else via a computer.

The market for online education can be divided into three: schools, universities and business/commercial training. Since universities are where much of the early development of the Internet took place, they might have been expected to have pushed its potential furthest. But, by and large, they have

concentrated on using it as a means of extending their geographic reach, through their “extension programmes”. On site, their record has been more patchy.

Consider UCLA, the University of California, Los Angeles, a prime candidate for advanced electronic learning methods if ever there was one. But UCLA uses the Internet much like a big business would. And, like the average big business, itdoubts whether it has saved much money as a result. It has simply been able to do a number of things better.

The first users, says Rory Hume, the university’s executive vice chancellor, were the administrative staff: “the people who buy things, and who have the power to hire and fire.” Next to see the opportunities were the librarians. Only late in the day did academics realise that the university’s system, now being designed as a single unit, could be used as a way to distribute information about classes and, more recently, about grading. But on-line instruction? Lots of small experiments are running on campus, but not much more. “Even when our professors put all the material on the web,” says Mr Hume, “all the students still come to lectures.”

Moreover, where it is happening, on-line learning is a commercial turkey. The university’s extension programmes are using the Internet widely—to teach from a distance, for example, a course on hotel management. But they still lose money. An immense effort by the School of Dentistry to create an online course to educate periodontists around the world cost some $750,000 and took five years to create: again, it has been a commercial failure. “People are unwilling to subscribe online for the latest information from anywhere in the world,” mourns Mr Hume. “Instead, they will go to a lecture and pay much, much more. We have an enormous revenue stream from our faculty giving lectures.”

The one area where the Internet is about to save the university money is in purchasing. James Davis, who came to UCLA a few months ago to reorganise the way that it uses information technology, has been making it possible to combine online the institution’s purchases of everything from computers to pencils, giving it more buying muscle.

Many of the other uses of information technology on the UCLA campus neither save money nor visibly enhance productivity. They simply raise the quality of the experience. One example is the web-sites that now exist for almost all 3,000 or so undergraduate courses. About 55-60% of them not only supply lecture notes; they also allow students to take tests online and to see their results. Another example is My.UCLA, an in-house “portal”. Students can use it to search for advice, such as the entry requirements for graduate school.

Given the University of California’s sprawling size, it is surprising that its nine campuses have not combined forces more, using the Internet as a bond. The main area where they have acted jointly is in setting up the California Digital Library, which drives hard bargains with the publishers of periodicals to license the use of their electronic versions. But even here, no money is saved: the university still buys paper copies. “Paper is so much more permanent than bits and bytes,” explains Gloria Werner, the university’slibrarian.

The Internet has undoubtedly encouraged universities to reach out beyond their own campuses in order to offer more “distance learning”, and at greater distances. The University of Phoenix, set up in 1989 to teach adults through a combination of old-fashioned distance learning and evening classes, is incorporating more and more e-learning into its courses, which are mostly taken by people with full-time jobs. But the extension of an institution’s brand is not without risk. Increasing the number of students who claim to have studied there can damage a university’s reputation if those students do not receive the level of teaching that the university’s name was built on.

Prominent universities have therefore tended to band together for support in the early stages of exploring e-learning, and they have often launched their efforts under names other than their own, even though they have some of the strongest brands in education. The business schools of Columbia, in New York, the University of Chicago, the London School of Economics, Stanford in California and Carnegie Mellon in Pittsburgh, for example, have teamed up behind Cardean University, an early effort at an online institution for tertiary education. Cardean offers complete courses, mostly in business subjects, aimed at people working full-time who want to learn in the evenings, at weekends or whenever. It plans to offer full degrees eventually.

There are more than 250 firms eager to help established universities to go online. These firms build the Internet infrastructure and manage the electronic delivery of classes. Cardean, for example, is the work of UNext, an Illinois company that grew out of Knowledge Universe, an education business started by

Larry Ellison, the CEO of Oracle, and Michael Milken, the developer of the junk bond market who spent 24 months in jail for fraud. Several prominent business schools—including Wharton at the University of Pennsylvania, Fuqua at Duke University, and INSEAD, near Paris—have worked with Pensare, a company based in Sunnyvale, California, to put their material online. A host of other firms, including Blackboard, Campus Pipeline, eCollege and WebCT, offer different platforms for putting course material on the Internet and for building a student community around the material.

Some firms have decided not to be the invisible force behind the e-learning efforts of established universities, but rather to become brands known in their own right as a place for students to find courses. Sometimes these are simply portals that consolidate course information from other institutions, such as Hungry Minds. Others offer courses of their own.

Business and other vocational subjects predominate. But some hope to find an audience for less utilitarian subjects among adults who feel that they missed some education when young. Mark Taylor, a sociologist at Williams College in Massachusetts, is leading an effort to offer courses in the liberal arts. Taught by professors from top universities—most of them so far in the eastern United States, such as Wellesley, Brown and Amherst—they are marketed under the name Global Education Network (GEN). The GEN project is funded by Herbert Allen, a rich alumnus of Williams, and it does not yet offer any complete courses, merely free snippets of lectures. But it was founded on the belief that there is a potential market for vigorous online intellectual stimulation.

Boxmind, with a number of Oxford University academics on its board, is another such ambitious project. By putting "star" academics at the centre of a stage away from their home institutions, websites such as GEN and Boxmind threaten (if they take off) to raise the tension between universities and their faculty over the ownership of intellectual property. With e-learning sites offering students access to the best teachers without having to call in at their institutional home, there is a danger that the universities' academic superstars may choose to go solo.

The mouse ate my homework

There is nothing new about the use of technology as a teaching tool in schools. Machines (from record-players and overhead projectors to televisions) have long been used to make lessons more vivid and engaging. The first computers in class were treated as novelties on which children could look things up in encyclopedias and play arithmetical games on multi-media CD-ROMs.

The CD-ROM has now been largely replaced by networked databases as the repository of learning material, but research continues into how to impart lessons that take advantage of a computer's capacity to present moving images and sounds as well as text, and their capacity to respond to a user's input. Pearson's Mrs Scardino thinks that the big advantage of online education is that it personalises the learning experience, allowing each student to move at his or her own pace and in his or her own way.

Online businesses aiming at the school market have tried to combine innovative "content" with building a strong "community", often through a portal. These are similar to general-interest portals such as Yahoo!, but they have specialised gateways for parents, teachers and children. Much e-learning material aims to facilitate the involvement of parents in the process. The plan is to make money by advertising and by selling goods—both electronic items, such as lesson plans to be downloaded by teachers, and more traditional supplies such as pencil sharpeners and books that can be ordered online.

Making money needs a light touch where children are concerned. Part of the appeal for parents of a portal such as MaMaMedia, which allows children to swap notes about school and to play educational games, is that it is safely ringed off from the pornography and craziness of much of the rest of the Internet. Saturating it with advertising would put off many users. And pure academic content, since much of it is defined by official syllabuses, is effectively a commodity. For this reason, the textbook publishing industry, in effect an oligopoly of four large firms, was initially wary of the web. It was not easy to see how an online commodity could command much of a margin.

Among the most committed early users of children's educational websites were those families that teach their children at home. Since it became fully legal in all 50 states in 1993, home-schooling has taken off in America. Estimates of the number of children currently being taught at home by their parents range from 1.5m to 2m, and the number is thought to be rising at between 7% and 15% a year.

The homes in which this teaching takes place are among the most wired in the world—94% have a computer, and almost all of those are connected to the Internet. In addition to the busy informal home-school communities in chat-rooms and on bulletin boards, a number of firms, such as ChildU and School Express, offer advice, specialised bookstores and complete courses (including such specialised subjects as creationist biology for religious fundamentalists) to parents who teach their own children.

There are still plenty of sceptics about the value of online teaching in schools. Teachers are, however, gradually catching up with their screen-happy pupils. Those who enter the profession today are more likely to have used computers and the Internet in their training, and to want to bring that experience into their classrooms.

Workers' studytime

In business, network technology both makes e-learning possible and allows it to take place during the course of work. Corporations are already heavily wired, and they conduct an increasing volume of their business, both internally and externally, over the Internet. The speed at which this makes it possible to introduce new products and processes means that employees have to master more and more new information more and more quickly.

It also means that they are less likely to find someone who can explain unfamiliar material to them among their immediate co-workers, the informal kind of training that used to go on within organisations. So they look for help online. United Airlines, for example, will soon have a system that monitors what its employees are doing as they work on an aircraft, and also supplies the relevant technical data to assist them.

Firms have also embraced the notion of "knowledge" as an asset to be worked with and to be enlarged. Training is no longer treated only as a pick-me-up when fortunes are flagging, but as a necessity in order to keep up with the pack. This makes the corporate training market perhaps the most promising of all the e-learning segments—especially since corporate training, as traditionally conducted, is an expensive affair. People come together from different locations, are put up in a hotel and spend valuable time away from their desks.

More than 200 companies are fighting to offer consulting services in the promising area of e-learning for businesses. Some are conventional training companies migrating online, others are start-ups. Three that offer e-learning "platforms" have already gone public. Docent, Saba and DigitalThink, all of them based in California, already serve half the corporate e-learning market.

Pulling together all the components needed for successful e-learning is more feasible in a well-defined industrial sector. Firms that operate in the business market look for sectors that have a high degree of commonly required (and rapidly changing) technical knowledge, and formal constraints such as regulation.

Enthusiasts of e-learning claim that corporate networks in the future will move beyond the provision of courses 24 hours a day, and that they will become a growing, responsive repository of knowledge that continuously delivers to employees just what they need to know at any particular moment...and in a form perfectly adapted to their style of learning.

No e-learning programme is close to this yet, although the United Airlines example gives a flavour of things to come. The nearest to such a "knowledge environment" is probably to be found in professional service firms like McKinsey, a consultancy where the collective expertise of the employees is almost the only asset. McKinsey consultants have developed systematic ways of pooling the results of their work into a continuously growing information resource on which all the firm's employees can draw. But they are powerfully self-motivated individuals. The same cannot be said of pupils at the likes of Beverly Hills High.

To develop the market for e-learning requires a deeper understanding of the process of learning, of how pupils respond to ideas presented by a computer rather than by a teacher or a book. The Learning

Federation, a consortium of American businesses, academic institutions and government agencies, is proposing to co-ordinate research in a range of scientific disciplines that will accelerate progress in e-learning.

One proposal for funding this is to use the money raised by auctioning the radio spectrum to telecommunications companies. The plan's supporters compare today's opportunity to enlarge education through e-learning to the creation of the land-grant schools in 1862, which helped lift American agriculture and industry to international pre-eminence. Pushed by public planning and private enterprise, e-learning may yet have a comparable impact.

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Tricky moves for the Bank and the Fund

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Will the Bush administration make life more difficult for the IMF and the World Bank?

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ON FEBRUARY 18th the heads of the International Monetary Fund and the World Bank, Horst Köhler and James Wolfensohn, depart on a trip to Africa—the first time that bosses of the two institutions have ever been on mission together. Yet as they leave Washington, both men may be tempted to glance behind them. As George Bush's new team settles in, and the administration's policy on international financial reform takes shape, they know how much is at stake for the future of both organisations.

If the agony is in the waiting, it is likely to be prolonged. Although Mr Bush has been president for nearly four weeks now, appointments below cabinet level have been slow to materialise, and nowhere more so than in the economic realm. When it comes to international economic policymaking, personalities count, both in the formulation of policy and in the effectiveness with which it is carried out. As *The Economist* went to press, there were still no firm nominations for the crucial Treasury posts of deputy secretary, and under-secretary for monetary affairs—though many people in Washington seem sure they will be filled by a lawyer, Kenneth Dam, and an economist, John Taylor, respectively. There is no word on who will be the under-secretary for economic affairs at the State Department. This could be another key post, given the greater role in international economic matters that the secretary of state, Colin Powell, desires.

Uncertainty is standard during presidential transitions. For the IMF and the World Bank, however, the doubts loom even larger this time. This is partly because of well-rehearsed Republican scepticism about the virtues of the two institutions, and partly because the transition comes in the middle of a halting process of reform that was set in train after the Asian and Russian financial crises of 1997-98. And it all coincides with a period of sinking morale at the World Bank (also standard, you may think, and not just during transitions).

These recent efforts form part of an immodestly named discussion on "reform of the international financial architecture". Attention in this is not focused exclusively on the Fund and the Bank, but the two institutions are the crux of the matter. The Fund, the Bank and the G7 governments that call the shots would obviously like best of all to stop financial crises ever happening. Failing that, which is probably beyond even their powers, the hope is to deal more effectively with any crises that do arise. Preventive measures include long-term work to make national financial systems more transparent, and shorter-term efforts to improve co-operation between the Fund and the Bank. The two institutions have often been at loggerheads. One aim of the African safari is for Mr Köhler and Mr Wolfensohn to show that progress is being made on co-operation at least.

One important area where the Fund is trying to change is "conditionality": the steps that countries are

required to take before receiving IMF help. This has been controversial in the past, not least because the sorts of conditions which the Fund has imposed are often politically unpopular in the countries that need help. Fund staff have been accused of forcing through big macroeconomic changes in developing or ex-communist economies too brusquely. Now the idea is to "streamline" conditionality, by reducing the number of specific conditions imposed on a country, all the while making them more effective, if not more popular. This is something Mr Köhler has been especially keen on since he took over as managing director last summer. The IMF board is due to discuss the "less is more" issue on March 7th.

By themselves, these reforms are relatively uncontroversial. What is causing concern at the IMF is whether America's new Treasury team will pursue a more radical course. Soon after it became apparent that John Taylor, a respected monetary economist from Stanford University, might get one of the key jobs, the *Washington Post* reported that in 1988 he had suggested outright abolition of the Fund. Larry Lindsey, chief economic adviser in the White House, is also keen on a back-to-first-principles approach. The Republican rhetoric, on this matter at least, has been firm: countries that, through neglect or profligacy, find themselves in trouble should not expect the international financial institutions to come to their rescue. Paul O'Neill, the treasury secretary, made clear during his confirmation hearings that he had serious doubts about the wisdom of rescuing Russia in the late summer of 1998.

A chief concern of those who want to rein in the IMF is the issue of moral hazard. If countries—or, more precisely, governments—know that pursuing reckless or irresponsible macroeconomic policies will lead them not to ruin but to an IMF bail-out, why should they be careful in the first place? The point applies with equal or greater force to western banks that lend to such governments. (Lending to Russia has been known in the markets from time to time as the "moral-hazard play".) Yet concerns about moral hazard can be taken too far. Few of those involved when a country finds itself in financial crisis escape without penalty: ask ex-President Suharto of Indonesia. Second, once a crisis strikes, moral hazard seems rather theoretical. Suddenly, what matters are the international economic or political consequences of failing to respond.

The chances are that the Bush team will be very interested in the report of the Meltzer Commission, published last March, which recommended a dramatic scaling back of the activities of both the IMF and the Bank. The commission, sponsored by Congress but headed by Allan Meltzer, an economist at Carnegie Mellon University, wants to see the IMF concentrate mainly on short-term crises in emerging-market economies, providing funds only to solvent governments that meet pre-set conditions. The World Bank would change its name to the World Development Agency, underlining a more tightly focused role in helping the very poorest countries. Overall, the commission's aim is to render the institutions more effective, to reduce overlap and to ensure that policy recommendations do not conflict.

There is much to commend in the report. Sharper focus is an aim that both institutions share—though to judge from recent, well-publicised navel-gazing at the World Bank, there is a long way to go. One authoritative watcher of the institutions, Morris Goldstein, of the Institute for International Economics, thinks that the Meltzer report goes too far, though he agrees in a recent paper on the IMF's structural policies that "The Fund has bitten off more—in both scope and detail—than its members can chew." He endorses Mr Köhler's aim of ending mission creep, with the Fund constantly extending the scope of its activities.

In the end, the new American team may be more pragmatic than some fear, or others hope. Mr Dam, apparently the deputy-secretary-in-waiting, is a scholarly fellow, no wild-eyed zealot, the author of well-regarded volumes on international economic policy. He is experienced in the ways of Washington and no stranger to the realities of power. Nor has Mr Taylor's name set alarms ringing at the IMF. He too is highly respected among the economists there.

Pragmatism goes with the territory. It is politically impossible to stand aloof and insist that national governments sort out their own troubles when the stability of the whole international financial system is at stake, or when America's vital interests are threatened. And by that stage it is no use saying—however true it may be—that the crisis should not have happened in the first place. Mr O'Neill, the treasury secretary, struck a chord even with some inside the IMF when he questioned the West's bailout of Russia in 1998. But would the administration let distaste for corrupt Russian financiers dictate a policy where profound geopolitical consequences are at issue?

The main threat to the institutions probably comes not from the White House or the Treasury but from Capitol Hill. Congress has little regard for the Fund and the Bank. Getting congressional approval for fresh capital injections for the IMF is always a painfully long process; the Meltzer Commission was part of the price that Congress exacted for authorising an additional $18 billion for the Fund in 1998. Closing the Bank and the IMF is seen as a serious option by some of the angrier critics on the Hill.

They overlook something. Often, those beleaguered institutions have enabled America to protect its interests while sharing the burden of cost with others. Adam Posen, at the Institute for International Economics, argues that the real moral-hazard problem lies not with the Bank and the Fund but with American foreign policy itself.

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Madison Avenue Bear

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AS MILLIONS of CNBC junkies will agree, nothing is quite so thrilling as watching a manic bull-run broadcast live from the floor of the New York Stock Exchange. As for the stock-tippers and day-traders that inhabited the dozens of financial websites, they were geniuses all. And who could resist leaving the browser window open all day to watch his portfolio climb?

Seeing it go the other way is just too depressing. Traffic at Bloomberg.com is down almost 45% from a year ago, according to Media Metrix. Traffic at Silicon Investor has also fallen off a cliff, while MarketWatch and CNNfn.com all of a sudden see no growth. Last week Motley Fool, another leading financial website, laid off 115 people, a third of its staff. It joins TheStreet.com, BulldogResearch, Red Herring and Inc.com in cutting jobs recently. Even at CNBC, viewership has peaked. The number of viewers last month was almost exactly what it had been last March, according to Nielsen, a ratings firm.

No one following the number of brokerage trades conducted online would be surprised. Behavioural economics predicts that people trade less in bear markets—and indeed Ameritrade, one online firm, has seen the average number of trades per account fall from more than four a month last March, near the peak of the Nasdaq market, to below two today. The less people trade, the less financial information they seek, and the less interested they are in watching how their bets have fared.

The financial media get hit especially hard by these trends. Not only does a bear market hurt viewership, it also wallops their main advertisers: brokerage houses, investment banks and financial-information providers. TheStreet.com, for instance, saw year-on-year revenue growth fall from nearly 250% to 23% in its most recent quarter, which was still one of the best performances in its sector. For the dotcoms, which are facing their own capital-raising problems, the experience is particularly painful. Now all are looking for a firmer footing. Last month Terra Lycos, a portal, bought RagingBull, and CNNfn.com is being restructured as part of a total revamp of its parent company. Meanwhile, Motley Fool is pushing its personal-finance side, which has kept its traffic growing while rivals' traffic shrinks. Bull markets may come and go. Mortgages and taxes are forever.

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German banks

Co-operative spirit

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FROM Napoleon to Bismarck, it took roughly 70 years to knock Germany's myriad principalities into a single empire. The consolidation of the country's banking system is taking rather longer. The four biggest private-sector banks account for only one-twentieth of Germans' savings. More than half of such deposits are held in 563 *Sparkassen* (savings banks). Another 30% sit in 2,000 co-operative banks.

Still, the landscape is shifting. In 1999 alone the number of co-ops fell by more than 200. And there are clear signs of upheaval among the 12 *Landesbanken*, which act as "central" banks, or clearing houses, for the *Sparkassen*, and the three banks that perform a similar function for the co-operatives. Both types of central bank also compete with private-sector institutions in commercial and investment banking. Deutsche Genossenschaftsbank (DG Bank), the biggest co-operative central bank, is the most active underwriter of new issues on Frankfurt's Neuer Markt exchange for "growth" stocks.

On February 13th DG Bank agreed a merger with the larger of the other two such institutions, GZ-Bank. The deal will create Germany's sixth-biggest bank, with more than DM600 billion ($280 billion) in assets. The logic is that there are economies of scale in central banking, and that a bigger bank would be better placed to compete in other fields. In fact, the two partners had hoped for a three-way deal, but the third partner, WGZ-Bank, pulled out last week, saying that it did not want to take "unquantifiable risks".

Its caution is easy to understand. Last December DG Bank said that it was increasing its loan-loss provisions to DM1 billion, up from DM428m in 1999, mainly because of worries about its lending to middle-sized, staple customers of the co-op banks. Bad luck? Unlikely. Other banks have not been so badly hit, and two directors have lost their jobs. Around the same time, DG Bank's plans for a merger with Rabobank, a big Dutch co-operative, were shelved. All this has helped to push it towards an eager GZ-Bank.

Among the *Landesbanken*, the agent of change is Mario Monti, the European competition commissioner. Egged on by the private banks, he has long worried about the guarantees given to creditors of the *Landesbanken* and *Sparkassen* by state governments and municipalities, which also have large stakes in their local institutions. These guarantees, the charge goes, boost the public-sector banks' credit ratings and give them an unfair edge over private-sector rivals.

Last week the biggest *Landesbank*, Westdeutsche Landesbank (WestLB), Germany's fourth-biggest bank, put a reform plan to Mr Monti. It proposed setting up a subsidiary that would take over competitive activities such as corporate lending and investment banking. A step in the right direction, said Mr Monti, but not enough. WestLB proposes giving its subsidiary a "comfort letter" that looks suspiciously like a guarantee.

Mr Monti has promised to ask detailed questions about the plan. Other, smaller *Landesbanken* will pay close attention, because their turn is coming. Without the backing of the state for some of their business, the best course may eventually be for some of them to merge. Among the co-operative central banks, the days of the old principalities are almost gone. They may also be numbered for the *Landesbanken*.

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Economics focus

A matter of trust

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Behaviour such as reciprocity and co-operation is not bred in the bone. Rather, it responds to incentives and experience

HOW MUCH do you trust your business partners, and how much do they trust you? Even in rules-based, litigious societies, some measure of trust is essential. Contracts cannot plan for every eventuality, and outcomes are often hard to verify anyway. The issue of trust is that much more pressing in emerging economies, whose threadbare legal systems and poor enforcement offer little assurance to investors. So how much trust can we expect from others? Researchers are beginning to find out.

Intuitively, at least two sets of factors might foster a degree of trust. For one, trust could serve as a signal of goodwill, either to secure co-operation in the short term or to ensure the success of a long-term relationship. On the other hand, the origins of trust might be simpler: some people might just feel good about trusting others.

Kenneth Clark of the University of Manchester and Martin Sefton of the University of Nottingham examine the first of these motivations in a recent paper. By having subjects play a series of simple games, the academics measured levels of trust and trustworthiness among strangers at their first encounter, and then recorded how the levels of trust changed over time. The format for each game was the “sequential prisoner’s dilemma” (SPD), which imagines two prisoners being held separately for interrogation on their parts in an alleged crime. There are four possible outcomes, depending on the prisoners’ actions. Should the first prisoner to be interrogated confess, whilst the second does not, then the first is released and the second gets 20 years (or vice versa). Should both confess, then both get ten years. Should neither confess, both get two years.

In this game the outcome that shows the greatest mutual trust between the two prisoners is where the first one refuses to confess, and the second does the same. True, the second player might well be inclined to confess and so get off scot-free. But if the game is played several times, maintaining trust gives the best overall outcome: players receive two-year sentences every round rather than each time risking ten or 20 years in the slammer.

Using money as a payoff rather than prison sentences as a threat, Messrs Clark and Sefton had student subjects play the SPD ten times. Players kept the same role (first or second mover) in each round, but were randomly paired with different, hidden partners. During initial rounds, the first mover began by trusting (not confessing) 57% of the time. In 35% of those cases the second mover followed suit, thus obtaining the trusting outcome. By the tenth round, however, only 32% of first movers were still trusting. And these co-operators were rewarded with trust in return only 38% of the time. The levels of mutual distrust had ratcheted up in the intervening rounds. This evidence belies the idea that any given person is, by nature, consistently trustful or mistrustful.

The authors refined their results in two ways. They doubled the payoffs across all outcomes, and they offered far greater rewards for a solitary confessor. Simply raising the stakes had no effect. But in the second case, where the cost of trust was increased, the frequency of the trusting outcome fell substantially. Again the idea that some people are inherently trusting, whilst others are not, appears ill-founded. Changes in incentives count for much.

Despite the evidence that trust responds to incentives, certain situations foster trust more than others. In another game of trust, Edward Glaeser of Harvard University and his collaborators paired off players, some of whom knew each other in real life. In this game, the first player received $15, of which he could give any part to the second player, hidden from view. The amount transmitted was doubled by the researchers, and the second player then sent any part he wished of the new amount back to the first player. Here the trusting outcome is for the first player to send all $15 to the second. Then, provided that the second player is worthy of the first's trust, both can walk away with $15. Nevertheless, the first player has an incentive to keep the entire $15. He can only do better if the second player returns more than he keeps.

Sadly for those with a high regard for human nature, the first players sent an average of $12.41 to their partners, who returned an average of 45% of the doubled sum. First movers who declared before the game that they trusted strangers sent $2.21 more across, other things equal, than counterparts who remembered their mothers' advice on this subject. The existence of a previous acquaintance also affected behaviour: both the amount initially sent, and the percentage returned by the second player, rose in proportion to the length of time the players had known each other. Perhaps unsurprisingly, when players were of different races or nationalities, the return ratio was much lower.

A vice to trust all?

The findings on group identity receive more support from a forthcoming paper by Alberto Alesina of Harvard and Eliana La Ferrara of Bocconi University. They merged two decades of responses to an American social survey with census data on racial mixes in different parts of the country. Their statistics show that blacks and members of racially mixed communities were far less likely to trust others than were whites or others living in racially homogeneous communities. Respondents who had recently suffered a personal setback—for instance, serious illness or financial problems—also reported lower levels of trust. This suggests that when people revise their expectations of fellow humans, it may sometimes be for apparently irrelevant reasons.

Together, the studies argue that trust is shaped by experience not native personal traits. It also seems that trust is a fragile thing, prone to break down altogether. The lesson? A handshake is no substitute for ready money, or a hard-earned reputation.

The papers referred to are: "The Sequential Prisoner's Dilemma: Evidence on Reciprocation", by Kenneth Clark and Martin Sefton, *Economic Journal* (January 2001); "Measuring Trust", by Edward L. Glaeser et al, *Quarterly Journal of Economics* (August 2000); and "Who Trusts Others?", by Alberto Alesina and Eliana La Ferrara, *Journal of Public Economics* (forthcoming).

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Pensions in Brazil

All shook up

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TWO of Brazil's chronic economic problems are that its people do not save enough for their old age, and that its companies struggle to raise long-term financing. One solution to both is to get more firms to set up pension schemes for their employees to which both firms and workers contribute: the employees would have an attractive means of saving for retirement, and the contributions would provide the Brazilian economy with a growing source of long-term funding.

Though Brazil's pension funds have grown steadily in recent years, they are still very small in relation to the economy, under 15% of GDP. The great bulk of firms still lack a pension scheme. The government wants to boost the growth of pension funds as part of its plans to develop the country's stunted capital markets. It is trying to update the pensions law in ways that would encourage more pension funds to be set up, improve transparency and toughen the penalties for mismanagement and fraud.

Yet rows within the governing coalition mean that the proposals are stalled in Congress, along with many other needed financial reforms. So in the meantime, the government is trying to sort out scandals and financial problems that have long festered at existing pension funds. Last November it appointed Solange Vieira, a young high-flyer in the civil service, as the chief pension-fund regulator. There has since been a flurry of rule changes as well as an unprecedented amount of intervention in the affairs of the pension funds.

Most recently, on February 7th, Ms Vieira fined eight funds for exceeding the limits for investing in the shares or bonds of any particular company. On the same day she asked public prosecutors to file criminal charges against TransBrasil, an airline, which has been collecting pension contributions from its staff but not paying them into its fund. The problems are worst at the pension funds of publicly owned companies, long prone to political meddling and corruption. These funds have a history of blowing huge sums on property speculation and failed business ventures.

Sharpening the funds' regulation seems reasonable. All the same, the funds' bosses are furious with Ms Vieira, whom they accuse of making hasty and ill-thought-out decisions. Instead of building public confidence in pension schemes, they say, she undermines trust by exaggerating the scale of the problems. Ms Vieira, in turn, complains of funds' reluctance to admit to the shortcomings: they should, for instance, be putting more realistic values on property ventures that have bombed. By her reckoning, merely to value pension-fund investments at book value would mean an injection of 9 billion *reais* ($4.5 billion) to meet future obligations.

The biggest fuss has been over the regulator's announcement last month that the minimum retirement age will be raised in stages, from 55 to 65 (Brazilians are now living longer than they used to). The funds complained that the move would stop companies that needed to restructure from being able to offer early retirement to a greying workforce. The regulator responded by putting out a further instruction. The funds say it is an about-face. Ms Vieira says she was simply clarifying their misunderstanding of her first announcement, which says early retirement can be granted, provided the regulator deems that the fund can pay for it.

Shortly before this row there was yet another, over a ban on pension schemes putting money into investment funds that charged performance-based fees. Again, the pensions bosses protested, and a fresh regulation was issued that seemed to countermand the original. Ms Vieira says it was another financial regulator, the National Monetary Council, that put out the first regulation; she realised they had erred, and issued another to overrule it. Performance fees are now acceptable only so long as the investment fund outperforms the yield on government bonds, which are currently around 15%. Regulators suspect that some investment funds have bribed pension-fund bosses in return for over-generous performance fees.

The pension-fund bosses complain that Ms Vieira's edicts, heavy-handed and incoherent, actually discourage companies from setting up schemes. In principle, they are perhaps entitled to be sensitive to this problem: Brazilian governments have traditionally suffered from legislative incontinence, issuing a constant stream of ill-considered and badly drafted laws and rules. In practice, years of slack supervision, in which pensions problems have mounted, give Ms Vieira every reason to act. A pity that communication between her and the funds has broken down.

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Islamic banking

Forced devotion

Feb 15th 2001
From The Economist print edition

Pakistan's banks have four months to turn Islamic

WHEN Pakistan's Supreme Court ruled at the end of 1999 that Islamic banking methods had to be used from July 1st this year, most bankers assumed that nothing much would change. This is not the first time, after all, that Pakistan has tried to introduce an Islamic banking system.

AP

His money is just not interested

Now, however, it appears that the highest figures in the land, including Pervez Musharraf, the country's military ruler, as well as Shaukat Aziz, the finance minister, are committed to the idea. Pakistani bankers face the awesome task of completely transforming the way in which they do business—all in little more than four months.

The Koran clearly condemns interest, which is called *riba* in Arabic, as exploitative and unjust. But of the world's Islamic countries, only Iran and Sudan have imposed interest-free banking on their populations. In most of the places where Islamic banking flourishes, such as Malaysia and Kuwait, borrowers and depositors may choose between conventional and Islamic banks. Although the first Islamic banks opened only 25 years ago, they have multiplied. There are now about 170 Islamic financial institutions worldwide, managing over $150 billion of funds. In recent years, conventional banks such as HSBC and Citibank have started offering Islamic financial services.

Instead of paying interest on deposits and charging it on loans, Islamic banks aim to enter into profit- and loss-sharing agreements with depositors and borrowers. Under *mudarabah*, for instance, a bank will give money to a borrower on the understanding that it will later share the resulting gains according to a ratio agreed upon beforehand. The bank's depositors will then take a share of the bank's profits on its *mudarabah* and other contracts, instead of receiving fixed interest.

Some Islamic bankers claim that this system is superior to interest-based banking, for reasons beyond religion. Islamic institutions, they argue, think more about the future profits of their borrowers than about their present creditworthiness. Lending decisions are therefore longer-term and more likely to be prudent. Banks are less likely to fail as a result (but see article).

In other ways, however, Islamic banks are less obviously suited to modern economies. Judging whether a company will make profits in the future is harder than making a decision about its current ability to repay a loan. A possible perverse consequence of a pure Islamic banking system is that a smaller number of companies end up getting financed. In addition, Islamic banks offer far fewer kinds of financing than the conventional sort. Pakistani companies may find that they can no longer borrow with the degree of flexibility to which they have become accustomed.

In fact, the great majority of Islamic transactions are not based on profit- and loss-sharing at all but on *murabaha*—another structure that bears a suspicious resemblance to an interest-bearing loan. In a *murabaha* contract, the provider of capital buys, say, a piece of machinery for $1,000, and the borrower buys it back from the bank later for $1,100. According to the *murabaha* rules, the $100 represents a "mark-up", but it works much the same as interest in everything but name.

Murabaha lending is likely to be the mainstay of Pakistani banks in the next year or so. From a bank's point of view, mark-up loans are a relatively easy way to lend without receiving interest. The more

complex profit-and-loss transactions will probably have to wait till later. Transforming Pakistan's banking system will involve other, more immediate kinds of difficulty, however. Although Mr Musharraf has said that interest payments on the government's external debt of $36 billion will continue, it is not known what it will do about its domestic borrowing of 1.6 trillion rupees ($25 billion). According to Fahim Khan, a member of the team that Pakistan's central bank asked to plan the reform, the country's biggest challenge in the next few months will be to find a way for the government to raise money domestically without paying interest.

Then there is the vital question of what to do about old loans and deposits. Will depositors suddenly be deprived of their accrued interest and given another type of "profit-related" return in its place? Legal havoc would follow. Or will Islamic methods apply only to new loans and deposits? So far, says Mr Khan, no final decision has been made. The path of least disruption would no doubt be to respect existing contracts.

The success or failure of Pakistan's experiment in Islamic banking will also depend on whether the central bank chooses to be liberal or strict in its interpretation of Islamic law. There is something of a divide between places like Malaysia, which tends to be flexible and innovative, and the Gulf countries such as Saudi Arabia and Bahrain, which are more dogmatic. Malaysian Islamic banks, for instance, think they have an Islamic justification to buy and sell existing *murabaha* contracts once they are in place. The Islamic Development Bank in Saudi Arabia and other authorities in the Gulf frown on this. The Pakistani central bank would do well to lean towards the Malaysian model. The more freedom Pakistan's banks are allowed within their new Islamic framework, the more likely they are to obey it.

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Full of interest

Feb 15th 2001 | ANKARA
From The Economist print edition

JUST as the dust from Turkey's banking crisis in December began to settle, a fresh panic happened this week with the collapse of an "interest-free" Islamic finance house, Ihlas Finans. Turkey's new Banking Regulation and Audit Board said that Ihlas faced hopeless liquidity problems that stemmed from years of mismanagement and abuse of depositors' funds. The main index of the Istanbul Stock Exchange fell to its lowest level this year over fears that other Islamic houses might meet the same fate.

Members of the Oren family, which controlled Ihlas Finans, are charged with siphoning off some $1.3 billion in depositors' money in an effort to shore up ailing businesses within their media and industry conglomerate, Ihlas Holding. The banking board is worried in case panic spreads to depositors at other Islamic financial institutions. The board's chairman, Zekeriya Temizel, insists, for now, that these are in good health.

His words are of little comfort to around 200,000 people, including some prominent Islamist politicians, who put their money with Ihlas. Under Turkey's banking law, deposits with special finance agencies or with "Islamic" banks are not covered by state deposit insurance extended to regular banks. Ihlas customers are unlikely to see their money again soon, if ever.

Islamic finance houses were first set up in 1983 under Turgut Ozal, the country's pioneering former president and prime minister. He launched a radical programme of liberalisation to free Turkey's economy from state control. The houses were meant to draw money from millions of pious Turks who shunned sinful interest in favour of gold. They never really took off and account today for just 3% of bank deposits.

Bankers in Istanbul blame the mess on lax supervision. The regulators say they want Islamic institutions to convert themselves into regular banks. Enver Oren, the family head, pins the blame on last December's liquidity crunch, which was triggered by a criminal probe into ten failed banks. A crisis was averted when the IMF said it would provide $7.5 billion in fresh facilities over the coming year.

Few people agree with Mr Oren. Accounts of his ostentatiously unIslamic lifestyle, including gifts of villas and jeeps to well-known pop starlets, have begun to surface in the Turkish media. The country's militantly pro-secular generals, who have long campaigned against the mounting influence of Islamic capital, must be having a good laugh.

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Japanese equity bonds

Under water

Feb 15th 2001 | TOKYO
From The Economist print edition

AS INVESTMENTS go, so-called exchangeable bonds (EBs), until recently the hottest thing in Japanese finance, have turned out to be a painful dud. Not, of course, for the securities industry, which managed to flog around ¥3 trillion ($25.6 billion) of them last year, pocketing fat commissions along the way. Once again, gullible Japanese investors laid themselves open to the predations of their stockbrokers.

Exchangeable bonds are designed to appeal to savers who face paltry interest rates on bank deposits and government bonds. Usually with a fairly short maturity, EBs offer rates of interest anywhere between 5% and 40%. The catch? Unlike ordinary bonds, the investor's principal on EBs is not necessarily paid back in full. Rather, the bonds' value is linked to a specific underlying share, or to an index such as the Nikkei. If the share (or index) falls below a predetermined price, even for a minute, then the exchangeable bond gets redeemed not for cash but for the underlying security. When the bond matures, investors can be left with paper worth much less than their initial investment.

In the ten months since last April, Japan's stockmarkets have taken a turn for the worse; during that time, some two-thirds of EBs have been redeemed in shares rather than in cash, according to the Daiwa Institute of Research. Investors' losses have been especially big because most EBs are linked to technology or telecoms shares, such as Sony, Fujitsu and NTT DoCoMo, which have suffered horribly. Exchangeable bonds linked to Softbank have done particularly badly; its shares have fallen by 90% in the past year. It was no help to buy EBs linked to the diversified Nikkei 225. Earlier this month some ¥20 billion of bonds hit their conversion price when the index fell briefly below 13,000 for the first time in more than two years.

As so often in Japan, the consumer's loss is the broker's gain. EBs have been a goldmine for domestic and foreign brokers alike. Local brokers that distribute the stuff are believed to have made ¥30 billion-75 billion in commissions alone. They are also thought to have made another ¥90 billion-150 billion by marking up the price of EBs before passing them on. And the architects of the bonds, mostly foreign investment banks such as Société Générale, which structured around one-fifth of the EB issues last year, have also made a mint.

At least one medium-sized broker, Ichiyoshi Securities, flatly refuses to sell exchangeable bonds to its customers, fearing a backlash. The firm appears to have learnt its lesson from a similar fiasco in 1997, when consumers were badly hurt by so-called dual-currency bonds. Some foreign investment banks also admit their discomfort, at least in private. But most say they cannot turn down a juicy proposition, particularly if competitors are faring so well with it.

It is said that lots of domestic brokers are now buying the underlying shares in an attempt to bolster their price. According to Jiji, a wire service, this has prompted the securities commission to start an investigation into price manipulation. The sudden flurry of broker activity may be a selfless act on behalf of customers; brokerages have, after all, already pocketed their commissions. Or perhaps the firms calculate that the most profitable strategy is to support the market in exchangeable bonds, and so leave money in investors' pockets for the next mugging.

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On human nature

Feb 15th 2001
From The Economist print edition

Rival versions of the human genome have been published at last. Despite arguments between the teams that produced them, the results are a huge step towards a proper understanding of how humans work

Get article background

THE number of the beast may be 666, but the number of the person is 26,588. At least, it is according to Celera Genomics, which reckons that that is the number of genes it has found in the human genome. According to the Human Genome Project consortium, it is about 31,000. Both figures are subject to the usual caveats about margins of error. But one thing is clear from this week's publication of the papers containing the first drafts of the human genome: it takes far fewer genes to make a person than people once thought.

The publication of the research may puzzle those who thought that the race to the human genome was over last June. Back then, after President Clinton had knocked their heads together, the competitors made a joint, televised announcement that they had breasted the tape simultaneously. But that was largely a political gesture. Although the full complement of human DNA had (more or less) been sequenced by then—in other words, all of the genetic "letters" that spell out the message had been located—little sense had been made of the result. This week's papers are an attempt to extract some of that sense.

Despite last June's announcement, there is little love lost between Celera, a commercial organisation that hopes to profit from its discoveries, and the Human Genome Project, a joint venture between four taxpayer-funded American laboratories, a charitably funded British one and a scattering of minor contributors from around the world. The two outfits used different approaches. The public project, which began its operations in 1990, adopted a step-by-step method that started with relatively large chunks of DNA and broke them gradually into smaller pieces. Celera is a relative newcomer. It was set up in 1998 and its method, known as whole-genome shotgunning, was more gung-ho. It smashed entire genomes into fragments, and relied on sophisticated computer programs to fit them back together.

The teams have published their results in different journals. (Ironically, Celera's results are in *Science*, a not-for-profit publication. The public project's contribution appears in *Nature*, one of the most commercially astute journals around.) They have also been spinning heavily against each other. Some members of the public project reckon that Celera has understated its reliance on public data (which it used to supplement its own, in order to get a more precise result), and could not have arrived at a meaningful sequence without it. Celera, meanwhile, points out that the public project's databases were full of confusing DNA from the micro-organisms that are a necessary part of the method it used.

Competition, even acrimonious competition, is generally a healthy thing. In this case it has produced two fairly independent versions of the genome that, fortunately for both sides, more or less agree.

Life within

One intriguing finding is that almost half of the human genome leads a life of its own, quite unrelated to the needs of human existence. It is, in other words, parasitic. Mostly, these genetic parasites lie doggo, allowing the body's DNA-replicating machinery to copy them along with the rest of the genome. Occasionally, though, they break out and copy themselves elsewhere in the genome, thus gradually

increasing in number.

This is a puzzle. Chemicals and energy are needed to create DNA, so eliminating these free-riders, known technically as transposable elements, ought to make evolutionary sense. Other species seem better at this. The human load of such parasites is, at 45% of its DNA, the largest known. Yet where it matters, transposable elements can be cleared out of the human genome too. Few, for instance, are found near the critical regions known as homeobox gene clusters. These clusters contain the master genes that control the overall body plan of a developing embryo. They are themselves controlled by a complex of regulatory sequences of DNA that switch them on and off in response to chemical signals from the rest of the cell. Anything that interrupts this regulation will get short shrift from natural selection. So only 2% of the DNA in these parts of the genome consists of transposable elements.

It is difficult to avoid concluding that, where they do persist, transposable elements must be conferring some benefit. One possibility, suggested for a type of parasite called a SINE (short interspersed element), is that it helps promote the production of proteins when a cell is put under stress. SINEs, and other transposable elements, are not normally transcribed by the cell's machinery to produce the molecular messengers by which genes act. But in the case of SINEs there is an exception: they are transcribed in stressed cells. The molecular messenger that results serves to block a substance that would otherwise slow down protein production. Thanks to SINEs, therefore, a stressed cell may be able to respond more rapidly to the threat in question.

Similar advantages to the continued existence of other sorts of transposable element will probably turn up when people start looking in detail. And in a few cases those elements have been co-opted by their hosts to even better effect: it looks as though at least 20 genes that play a useful role in the human body originally came from transposable elements. That is hardly surprising. Genomes are not picky about where they acquire useful material, and transposable elements are not the only things to have been plundered. More than 200 "human" genes have actually been pinched from bacteria.

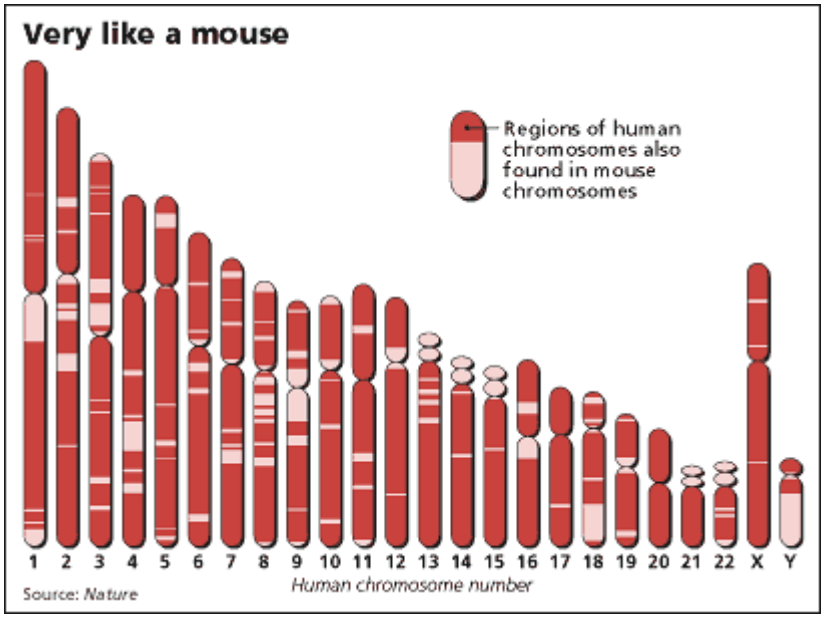
These slaves, or immigrants—call them what you will—are part of the grand-total number of genes that each of the projects has come up with. But those totals are smaller than many people expected.

Out for the count

In the 1980s Walter Gilbert, one of the pioneers of genomics, estimated that the number of human genes was around 100,000. He based this on knowing the number of genetic letters in the DNA in the chromosomes of a human cell's nucleus (which can be worked out from their weight) and guessing how many genes might lurk in any given stretch.

More recent estimates have varied wildly. Based on his early results, Craig Venter, the boss of Celera, came up with a figure of between 50,000 and 80,000. Incyte Pharmaceuticals and Human Genome Sciences, two other American firms that have been busy creating private, though less comprehensive, versions of the human genome, have talked of numbers between 120,000 and 150,000. It shows how wrong you can be. (Though some cynics have suggested that higher numbers would make drug companies willing to pay more for access to the genomic databases maintained by these firms.)

Another surprise is that the genetic differences between people and other species seem smaller than had been supposed. Celera announced this week that it had finished sequencing the genome of that laboratory workhorse, the mouse. The last common ancestor of mice and men probably lived 100m years ago. Yet according to Dr Venter, the firm's scientists have found only 300 genes that people have and mice do not.



The public project, though it does not name such a precise figure, comes to a similar general conclusion based on publicly available mouse-genome data. To a reasonable approximation, a human genome is like a mouse genome that has been chopped into pieces and rearranged (see diagram). The exact genetic sequences of the shared genes are different in the two species, so the proteins that result from them are not perfect copies of each other. But they are close. It looks, therefore, as though the differences between mice and people have more to do with the way that their genes are regulated than with what they actually produce.

Human self-importance can, however, salvage something from the fact that mice and people are significantly more sophisticated than invertebrates. They have 1 1/2 times as many genes as a nematode worm, and twice as many as a fruit fly (the two other animals that have had their genomes completely sequenced). A large core of shared genes deals with such shared processes as the release of energy from glucose. But in addition to this core, there has been a massive expansion in humans (and mice) of the groups of genes that control several other sorts of function.

Some of these are no surprise. Immune systems are a speciality of vertebrates in general and mammals in particular. One difference between the human genome and those of worms and flies is therefore the large number of genes dedicated to keeping this costly but effective system going.

Other areas of expansion include the genes that regulate the nervous system (particularly those that are responsible for the signalling molecules known as neurotransmitters) and the blood system. But perhaps the most interesting were in two groups of genes that help to create complexity. One of these was the group whose protein products bind to DNA and thus regulate the expression of genes such as those in the homeobox clusters. The other was for the group that controls the process by which a cell kills itself, which is known as apoptosis.

Apoptosis is an essential act, not a casual one. It first came to light in the study of cancer: one way the body deals with cancerous cells is to order them to self-destruct. But apoptosis is also crucial during embryonic development. Some developmental processes are like sculpting in clay. They involve adding bits of tissue where none previously existed. Others are like sculpting in stone. They involve carving away tissue that is already there. This is done by apoptosis. The cells that die help to make you what you are.

The lessons of history

Just as cells die out when they become redundant during development, so genes die out when they become redundant during evolution. The human genome bears witness to this process, too. It is littered with things called pseudogenes. These look at first sight like real genes, but lack the additional paraphernalia needed to get the cell they inhabit to transcribe them.

The existence of pseudogenes is one reason why it is hard to put a precise figure on the actual number of genes in the human genome. Merely finding a gene-like sequence in the DNA is not enough. An

independent line of evidence, such as a matching protein, is needed to be sure.

A good example is the sense of smell. This depends on a huge number of different receptor proteins, each tuned to a different sort of chemical stimulus. The production of these proteins requires, in turn, a large number of genes. In the human genome there are more than 900 stretches of DNA that look, at first sight, like genes for these smell-receptor proteins. But the sense of smell, though quite important to people, is by no means as important as it was to humanity's ancestors before they took to the trees and came to rely mainly on vision. The DNA reflects this. Close scrutiny of those 900-odd "genes" shows that 60% of them are broken in ways that mean no protein can be copied from them.

Even broken genes, however, can be useful to biologists. Together with the transposable elements and the fact that significant blocks of DNA will occasionally duplicate themselves and pass down the generations without apparent harm to the creatures containing them, they form a sort of fossil record of a species' past. It is early days yet—data from other species, needed to make useful comparisons, are sparse—but it is possible to start looking at the history of the genome itself.

One surprise is the sheer amount of duplication. More than 1,000 examples were identified. Usually, such duplications cause illness, if not death (Down's syndrome is the result of the partial or complete duplication of chromosome 21). Those that persist, however, have an important role in evolution. The additional copies of genes they create can be modified to do new jobs, while the originals carry on with the old ones. It is another way for creatures to become more complex.

Cui bono?

So much for the science. What use is it all? The main hoped-for uses, of course, are medical—particularly the development of new drugs. One obvious approach is to look for genes that produce proteins similar to existing drug targets. Such genes are called paralogues, and the public paper illustrates their potential with three examples already under investigation.

One is the gene for a receptor protein in the brain. This protein, known as 5-HT3B, interacts with a neurotransmitter called serotonin. This neurotransmitter affects mood (anti-depression drugs such as Prozac work by boosting the effect of serotonin) and the newly discovered receptor is explaining many aspects of serotonin's function that were previously mysterious. The gene for 5-HT3B is a classic example of the value of having the full human genome. It was identified by searching the genome for sequences of DNA that looked similar to a known serotonin receptor, 5-HT3A.

A second medically significant gene, responsible for producing a protein called CysLT2, is active in the muscles of the airways leading to the lungs, and is implicated in the development of asthma. This was found not by analogy with a known human gene, but rather by comparing the human genome with the partially sequenced genome of the rat, where a similar gene had already been discovered.

A third gene, which is responsible for a protein called BACE2, was found because of its similarity to one of the genes involved in the deposition of the amyloid plaques that occur in the brains of people with Alzheimer's disease. It, however, is located in the chromosomal region that (when duplicated) is implicated in Down's syndrome. That is interesting because Down's is also characterised by the deposition of amyloid.

Each of these three genes is being studied by drug companies, and the chances are that many more potential targets will be turned up when each of the genes in the sequence has been well described. Indeed, the public paper lists 18 further paralogues of common drug targets that its authors have identified during the course of their researches. At the moment, fewer than 500 human genes (or, rather, their products) are known to be the targets of existing drugs. Even if only 10% of the human genome turns out to be responsible for proteins that would make good drug targets, that would multiply the inventory around sixfold.

Turning this potential into medicines will take a lot of time and money. Another aspect of the genome may yield more immediate benefits. This is the analysis of single nucleotide polymorphisms (SNPs).

SNPs, as their name suggests, are places where the genomes of individuals differ by a single genetic letter. They are likely to be important for two reasons. First, they can be used as signposts. Each SNP is assumed to have an independent evolutionary origin, so if two people share one, the chances are they will share the same versions of the genes that are near that SNP. The SNPs can thus act as markers for

particular versions of genes, including those versions that predispose people to disease. The second reason that SNPs are medically important is that some of them (the ones that are actually found inside genes) are among the causes of those different versions of genes.

In this context, one of Celera's findings is particularly intriguing. The firm's researchers have discovered that less than 1% of SNPs seem to alter the composition of a protein. This suggests that human genetic variation is the result of only a few thousand minor differences between proteins.

Of course, as anyone who plays cards knows, even a few dozen different things, let alone a few thousand, can be shuffled into a vast array of combinations. But this result confirms the idea that *Homo sapiens* is a young species—too young to have accumulated significant genetic variation.

Crossing the line

So who won the race? It depends on whom you ask. The public project's researchers, stung by the suggestion made when Celera opened for business that they should fold their tents and let the money funding them be spent on something else, are clearly convinced that they did. Given that Celera eventually chose to incorporate data from the public databases into its own analysis, they have a point. In retrospect, the company's timetable was too ambitious if the real prize was intended to be a complete Celera-only sequence.

But this is to miss a bigger point. Though Celera's researchers are scientists of integrity, they are ultimately answerable to their shareholders. Their sequence does not have to be ideologically pure, it just has to be right—accurate enough and detailed enough to form the basis of the "value-added" genetic-information packages from which the company currently makes its money. That, it certainly is.

The real winner, therefore, is science. When Dr Venter and Celera made their audacious gamble in 1998, the public project responded by speeding up significantly. Without that stimulus, it is unlikely you would be reading this article today.

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An underworld classic

Feb 15th 2001
From The Economist print edition

Dante is more than a revered but bygone giant. There has never been so much evidence of his continuing vitality

DANTE: A PENGUIN LIFE
By R.W.B. Lewis

Weidenfeld & Nicolson; £12.99
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THE journey to the underworld is one of the oldest motifs in literature. It plays a pivotal role in the Babylonian epic of Gilgamesh, in Homer's "Odyssey" and in Virgil's "Aeneid". In all these poems, the hero goes down among the dead in order to discover his destiny—and perhaps also the destiny of his race.

Louvre, Paris/Bridgeman Art Library

When the Florentine exile Dante Alighieri embarked on his version of the journey around 1300, he brought his great predecessor into the poem. It was as if Virgil, being his master, could show Dante the way: both the way through Hell and the way to write about it. Moreover, for Dante, the journey is no longer an episode in the tale of an epic hero. The poet himself is the protagonist, and his pilgrimage—from Hell through Purgatory and into Heaven—occupies all three books that make up the poem. As Dante travels through these different realms, he engages the spirits he meets in conversation, some of them people he has known in life, others figures from history or myth. Each has a story to tell, and Dante's narrative is also a compilation of many stories; and the issues touched upon are both personal to Dante and universal.

“The Divine Comedy” suggests that works of literature are not autonomous artefacts but conversations the writer holds with the past. As R.W.B Lewis puts it in his brief and readable “Dante”, the poem is autobiographical: “the journey of a man to find himself and make himself after having been cruelly mistreated in his homeland. It is also a rhythmic exploration of the entire cultural world Dante had inherited.” Chief among the passions dealt with is Dante’s love for the woman called Beatrice, who, taking over from Virgil, leads the poet into Paradise. Was Beatrice a real person? She almost certainly was, though one suspects that the facts of her life and death were adapted to the poem’s symbolic system. In an otherwise intelligent and informative biography, Mr Lewis fails to discuss such important distinctions between life and art.

It is in a Dantean spirit of dialogue with the past that literary translations come about—and translation is increasingly regarded as a major form of literary art. The “Comedy” in its entirety was not put into English till the end of the 18th century, when Henry Francis Cary, a librarian at the British Museum, began a version that was eventually published between 1805 and 1814, and which still stands as a classic of its kind.

Like every translator since, Cary had choices to make. Prose or verse? Rhymed or unrhymed? Cary chose blank verse, which was suitable for epic, but turned Dante into too much of an Italian Milton. Over the next 200 years, a few more English versions appeared, of varying quality and approach. But in the last 20-30 years there has been an explosion: one version of the “Purgatorio”, five of the “Inferno” and four of the whole poem—rather more than in the previous 650 years. Among these, Charles Singleton’s prose version with Italian text and copious notes (Princeton University Press, 1970; reissued in 1977) and Peter Dale’s verse translation (Anvil Press, 1996) stand out as excellent examples of their kind.

What explains the enduring appeal? “The Poets’ Dante” is an attempt, in part, to answer this question. A collection of essays on Dante by modern poets, it begins with Ezra Pound and T.S. Eliot, the founders of English modernism, who between them did more than anyone to keep Dante on the up-to-date poet’s reading-list. Their Dante, though—as Seamus Heaney points out in a gripping lecture—is not quite the same as Osip Mandelstam’s, whose jaggedly futuristic “Conversation about Dante” is also included. Persecuted by Stalin, he speaks from the bookless wastes of internal exile and identifies with the embittered Florentine, driven from his native city by political conflict. Mandelstam’s Dante is vividly particular, local and spontaneous, his emotion resounding still in the sounds of his words. Eliot’s Dante, by contrast, is Latinate and Olympian, evoking in “the mind of Europe” a sublime vision of universal order.

The truth is that Dante is all these things and much more besides. His comprehensive outlook is something for which, in our fragmented and rootless modernity, many of us yearn. Yet we also identify with Dante the realist, who speaks with such unencumbered directness to us of love and loss, violence and greed, hope and injustice—and in language that is at once high and low.

All of which presents problems to the translator. In nothing is Dante’s feeling for order more apparent than in the poem’s unique and beautiful form. The celebrated rhyme-scheme, called “terza rima”, drives the story on in a way that suggests ascending steps. It also breaks that forward movement into stanzas, which gives the poem its feeling of lyrical reflectiveness within the epic scope of the narration. To abandon rhyme might seem equivalent to abandoning the poem.

But no translation can capture the whole of a poem, as Robert and Jean Hollander are aware. Their new version of “The Inferno” attempts a sort of compromise: a more or less literal version without rhyme or regular metre. Their rhythms hover uncertainly between the ordinary Shakespearean pentameter and a fairly prosy free verse. Although there have been more exciting versions that give us something of Dante’s music and magic, there has rarely been such a useful one. The Hollanders—he is a Dante scholar, she a poet—act as latter-day Virgils, guiding us through the Italian text that is printed on the facing page. Their English is not remarkable as poetry, but it can be poetic, and it helps us to come to terms with a foreign poem that is perhaps the most magnificent ever written.

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About sponsorship

Not horrid enough

Feb 15th 2001
From The Economist print edition

IN THE gorier bits of “Hannibal”—and there are plenty of them—squeamish viewers may well decide to shut their eyes and think instead of Dante, the cannibal’s favourite poet: of Paolo and Francesca, or of the love that moves the stars. Oh yes, and of the treacherous Ugolino in the deepest circle of hell, eating away at an archbishop’s brain.

UIP/Universal

Al Dante

Hannibal Lecter is both repellent and attractive, urbane and deranged. He can drop a tercet from the Florentine bard and he eats real fingers with his breakfast eggs. The tension in his character made Thomas Harris’s “The Silence of the Lambs”—and the 1990 film with Anthony Hopkins and Jodie Foster—compelling.

Mr Hopkins is back again in “Hannibal”, which is taken from another of Mr Harris’s Lecter novels and directed by Ridley Scott. When the film opened in America on February 9th, it took a staggering $58m in its first three days. Alas, the tension is gone. Hannibal at large in Tuscany is just not as scary as when he was evilly manipulating events from a high-security cell. He has become a stock Hollywood fugitive, buffeted by events but always a step ahead of his pursuers. These include a revenge-bent millionaire, a corrupt policeman and an FBI agent, Clarice Starling, played by Julianne Moore, who took the part when Ms Foster wisely turned it down.

Starling and Lecter do not meet until the film is two-thirds done, and then the erotic charge of the earlier film is missing. Mr Scott has also changed the novel’s horrid “happy” ending, playing his film’s gruesome last scene for laughs instead—and leaving the story open for “Hannibal III”. Viewers may prefer to curl up with Dante—and Count Ugolino.

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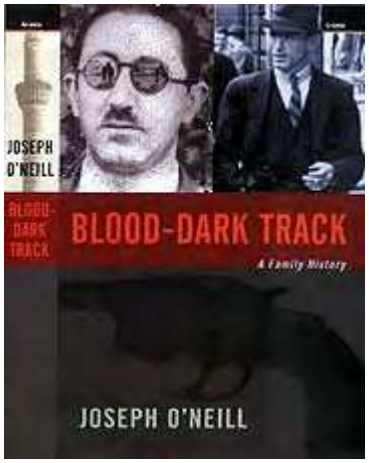
Family loyalties

On the edge

Feb 15th 2001
From The Economist print edition

IF YOUR maternal grandfather was a Maronite Christian from Mersin in southern Turkey who was interned by the British near Jerusalem for more than three years during the second world war, a war in which his country was nominally neutral; and if your paternal grandfather was a member of the IRA who was interned in the notorious Curragh prison in the nominally neutral Irish republic for four-and-a-half years at more or less the same time, that coincidence alone would make a strong enough theme for a book. When the circumstances of the two men's detention are mysterious and their grandson is a writer of Joseph O'Neill's calibre, then that book becomes several things at once: a gripping detective story, a thoughtful enquiry into nationalism, and a moving evocation of world war at the edges of its European theatre.



BLOOD-DARK TRACK
By Joseph O'Neill

Granta; 333 pages; £16.99

Buy it at Amazon.co.uk

Both grandfathers lived in a time when an ambiguous word could mean death, and not necessarily their own. Turkey was a ferment of intrigue. Mersin, an outpost of multicultural Levantines, hard by the disputed territory of Hatay and the British controlled protectorate of Palestine, had its full share of foreign visitors looking for more than the beach. And over County Cork, home to the O'Neills, hung the presence of the IRA and a frightening number of unsolved sectarian killings.

The experience of wartime made both men wary and unapproachable. The generation that they fathered in its shadow were not keen to question the past. But Mr O'Neill, born in 1964 and one generation removed from the trauma, has a far less inhibited curiosity which takes him from an ancient monastery near Jerusalem to the wild west of Cork turning over family stones with happy abandon. At one stage he wonders if he is not doing it "as a punishment for the hurt silence which, I rightly or wrongly sensed, they'd bequeathed to my parents."

To uncover his grandfathers' secrets he has to go still further back, to see what formed these complex men. His journey takes him to the Armenian massacres of 1909, the fringes of which his Mersin grandfather must have witnessed, and to an outburst of Protestant killing in west Cork in the 1920s, where the family connection was closer and more sinister. It is a journey that throws up hard-to-answer questions about the conflict between nationalism and the rights of minorities.

It is also a journey that throws up some extraordinary coincidences which, occasionally, the author allows to carry him too far. He tries, for example, to establish a parallel between his maternal grandfather, Joseph Dakak, and Franz von Papen, the German chancellor who ended up as his country's wartime ambassador in Ankara. After his acquittal at Nuremberg, von Papen went to the refectory where "his place at the table was marked by the presence on his plate of Joseph Dakak's beloved fruit, an orange." Both men loved oranges: gosh.

But this is a minor fault. Mr O'Neill's descriptions of the life of the Levantines in Mersin, remembered from childhood holidays spent there with his grandmother, are particularly vivid: the mixture of religions, none of them very devoutly observed, and the mixture of languages, none of them spoken very fluently. French is the social denominator—the language of cards and gossip. It was a blissful existence, a sort of paradise, confirmed for Mr O'Neill's grandmother when a snake fell harmlessly at her feet as she heard of her husband's release, an Eden regained.

But this was an Eden that was permanently at risk. The Levantines felt like outsiders, and at times like pariahs. In 1942, the *varlik vergisi*, a discriminatory tax, was imposed on non-Moslems. Such menace, never far behind the colour and the warmth, is ever present in the best modern memoirs from the region: in André Aciman's "Out of Egypt", an American scholar's recollections of his Jewish aunts and cousins in Alexandria before Nasser and Suez sent them packing; and in the most moving of all: Irfan Orga's "Portrait of a Turkish Family", where the serpent is fire and Eden is never regained.

Both sets of Mr O'Neill's grandparents lived "in extraordinarily hateful and hazardous places", and if you were there, you were bound to be tainted by the dangers. Anyone born poor and Catholic in Cork in 1909 faced narrow choices, none of which took you far from the IRA. And there began a journey that led easily to unspeakable things, even to complicity with the Nazis. "At the time," recalls Mr O'Neill's Irish grandmother, "anyone that was beating the English, we were for them. We thought that way. But how wrong we were. How wrong we were." Hers is just one of many arresting voices in this remarkable family memoir about the intricacies of loyalty.

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Drinking fashions

What bottle

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HOW did an up-tight, state-run liquor monopoly in Sweden—a country which restricts booze ads to matchboxes—come to own one of the hippest, most successful spirits brands in the world? And how did the Swedes pull this off with Russia's national drink? The story of Absolut vodka is a perfect illustration of the con trick that is modern advertising—the creation of something out of nothing.

ABSOLUT: BIOGRAPHY OF A BOTTLE
By Carl Hamilton

Texere; 312 pages; $24.95 and £16.99

Buy it at
Amazon.com
Amazon.co.uk

Carl Hamilton's book tells how Absolut was invented back-to-front. First came a trip to Madison Avenue in 1978 to find an image. Absolut's image broke the rules. Even its creators thought the clear, stumpy bottle looked like a hospital plasma bag. And its ostentatiously simple, go-anywhere ads (a bottle with a bow-tie, for example, over the slogan "Absolut Elegance") were at odds with the burnished, regional imagery that sold most booze. Then came the high-end names. Andy Warhol painted the bottle. Among many celebrity endorsers, Annie Leibovitz photographed Salman Rushdie clutching a burning ad for Absolut.

The drink was an after-thought. Once the makers had an image, they found a white-coated scientist to devise a recipe, which was described on the bottle as being more than 400 years old. Despite or because of its topsy-turvy birth, Absolut became a world hit. With annual sales of $3 billion, it is America's largest imported vodka. Besides drinking it, you could use it to explain to Martians what icons are.

Mr Hamilton, a Swedish journalist, gives an inside glimpse into the business of imagemaking. He describes the bruised egos, the failed ideas and the sometimes less than gripping serendipity of product placement: Absolut turned up in a James Bond film because a friend of the firm knew Roger Moore. In too many places the book manages to be both breathless and over-detailed. Unless you work in advertising or are a close student of state liquor monopolies, much of the detail will be skippable. Nor does Mr Hamilton draw general lessons. "Absolut" is best taken quick and neat, as a campaign diary of the ad game at its most inventive.

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South African cartoonists

Inky devils

Feb 15th 2001 | JOHANNESBURG
From The Economist print edition

THE DEVIL MADE ME DO IT.
By Zapiro.
David Philip; 160 pages; 72 rand.

THE MADAMS ARE RESTLESS.
By S. Francis, H. Dugmore and Rico.
Rapid Phase; 176 pages; 77 rand.

PENPRICKS: THE DRAWING OF SOUTH AFRICA'S POLITICAL BATTLELINES.
By Ken Vernon.
Spearhead Press; 200 pages; 153 rand

JONATHAN SHAPIRO had yearned to be a cartoonist since he was small. But growing up in South Africa under apartheid, he was not free to do as he pleased. As a young white man, he was conscripted into the army, where he was harassed for his radicalism, and put on sentry duty with a dummy rifle made of wood and lead piping. His drawing skills were forcibly squandered on menu illustrations and get-well cards for officers injured in stupid accidents, such as the one who burned himself trying to douse a *braai* with petrol.

In his spare time, Mr Shapiro drew satirical cartoons for underground pamphlets. The authorities objected. His work was periodically banned. He was hauled out of bed at night by the security police, frequently interrogated and briefly jailed. At one point, he was forced to go into hiding behind granny glasses, inexpertly dyed orange hair and a goatee.

It was easier then to be a cartoonist in South Africa. "It is much harder now," says Mr Shapiro. "In the old days, you knew where you stood, and who the enemy was. But now I have to take a more nuanced line."

Such sentiments are common. The end of apartheid deprived South African artists of a bottomless treasure chest of material. At least one cross-dressing comedian took a year off to find his bearings and uncover new targets. Newspaper cartoonists, by contrast, obliged to produce a new doodle every day, had to grapple with the new order straight away. On the whole, they have done a good job.

Mr Shapiro, who goes by the *nom de crayon* "Zapiro" (see cartoon above), is the best. Last year, when the South African government was pondering whether to send peacekeeping troops to Congo, Zapiro showed with a single cartoon why this would be impractical. A South African soldier at a roadblock sees the tip of a rocket-propelled grenade launcher protruding from a bush. "Halt," he cries, "Who goes there?" The guerrilla in the bush replies: "Congolese Rally for Democracy." "Hang on," says the peacekeeper, and he turns to consult a chart of parties to the Congo war, on which seven groups are listed as "friend", eight are listed as "foe" and ten are listed as "not sure". The Congolese Rally for Democracy, by the way, is labelled "not sure", along with the Congolese Rally for Democracy (breakaway). Congo has grown no simpler since President Laurent Kabila was shot dead last month.

Before 1994, Zapiro unhesitatingly supported the black liberation movement. Now that the liberators are in government, he is still sympathetic, but lampoons the abuses that power makes possible. Crooked

officials feel the jab of his pencil, but he cheers on Willem Heath, a courageous judge who was in charge of collaring them. In one cartoon, Mr Heath is depicted as a character from “Ghostbusters”, entering a spooky-looking government building to smoke out the “ghosts”—dead workers who still draw salaries.

The new regime has surprised many by pursuing cautious fiscal and monetary policies. Economists applaud, but macroeconomic orthodoxy has yet to spur growth, and the poor are still poor. Zapiro shows a woman with a baby strapped to her back, washing clothes in a puddle outside her shack. Her son sits on a crate nearby, reading a newspaper. “You’ll be glad to know,” says the boy, “that according to the analysts, the economic fundamentals are in place.”

For lighter, but still barbed cartoons, try Madam and Eve. This popular strip (now also on TV) tells of a white “madam”—big perm, big earrings, BMW—and her black maid, Eve. The three cartoonists, S. Francis, H. Dugmore and R. Schacherl, take South African stereotypes and gently play with them. Gwen, the madam, is bossy, stingy and idle. How many madams does it take to change a lightbulb? Two: one to watch TV and the other to call the maid. Eve, much the smarter of the two, is forever devising new ways to make extra money or goof off.

When this formula flags, the cartoonists throw in topical fantasies. For example, the soccer official who denied South Africa the chance to host the World Cup in 2006 visits the country and is sent bungee-jumping with only knotted bedsheets to break his fall. The authors even South-Africanise old nursery tales. Rapunzel lets down her hair from her window only to see it singed on an electric fence below. Hansel and Gretel nibble at the witch’s gingerbread house, whereupon the witch hits her panic button and summons security guards.

Finally, for anyone interested in the past but lacking the energy to read a more academic tome, Ken Vernon, a journalist, has compiled a cartoon history of South Africa. It is impressionistic, but revealing. Nineteenth-century cartoons are either pro-British or pro-Boer; blacks appear only as peripheral savages. By the latter half of the 20th century, though, the drawings show a struggle between those who wanted to grant more rights to blacks, and those who wanted to deny them.

A cartoon by John Jackson in the *Cape Argus* in 1959 was especially prescient. It shows Hendrik Verwoerd, the then prime minister, trying to lead two ferocious dogs over a narrow bridge, each straining at the leash to bite the other. One dog is labelled “apartheid”, the other represents the South African economy. Partly because it was so difficult to do business when the law compelled firms to hire by skin colour instead of skill, apartheid South Africa stagnated. It is a lesson the country’s current rulers would do well to heed.

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India's choices

Agree to differ

Feb 15th 2001 | NEW DELHI
From The Economist print edition

MISTAKEN MODERNITY: INDIA BETWEEN WORLDS.
By Dipankar Gupta.
Harper Collins; 225 pages; 195 Indian rupees

INDIA UNBOUND
By Gurcharan Das

Knopf; 384 pages; $27.50; 495 Indian rupees.

Buy it at
Amazon.com
Amazon.co.uk

A DECADE after discarding comforting but self-destructive ideals of self-sufficiency and economic planning, India is in the midst of a great debate about the consequences. The antis mourn two losses: dedication to equality and an approach to development that was distinctly Indian. They fear, in a word, that India is losing its soul. The pros revel in India's new information-technology prowess, the unshackling of business, faster growth and the hope that it will reduce the country's appalling poverty. They celebrate India's reconditioned body.

"India Unbound" is by an unabashed pro, an ex-boss of the Indian part of Procter & Gamble who has moved into business consultancy and writing (he has done a novel and three plays). Thanks to economic reforms, he writes, "we have glimpsed paradise again and are on our way to regaining it." The author of "Mistaken Modernity", a sociologist at Delhi's leftish Jawaharlal Nehru University, is an ambivalent anti. He does not condemn outright the reforms of 1991, which entailed deregulating business and opening India up (partially) to foreign trade and investment. Like many Indian sceptics, he is nostalgic for the days when production decisions "were tied umbilically to national development and sovereignty."

Gurcharan Das is correct that the umbilicus was strangling the baby. But there is less conflict here than it seems. Both sides in this debate are avowed enemies of what might be called old India, which remains in many respects the India of today. Its features include discrimination against women, caste barriers, Hindu chauvinism, official corruption, advancement based on patronage and, for business, profits without competition. Dipankar Gupta contends, justly, that India's fascination with western gadgetry and lifestyles has not brought modernity. You can subjugate women and make a weapon of religion just as well with a mobile phone as without one, probably better. True modernity, Mr Gupta writes, entails adhering to universal norms, upholding individual rights, making the state accountable. His book pleads with India to put modernisation in place of "westoxication".

There is nothing here that true globalisers would not support, with enthusiasm. Their argument with the antis is really about money. Mr Gupta and others who are suspicious of reform seem to share the high-minded attitudes of India's first prime minister, Jawaharlal Nehru, who once told J.R.D. Tata, head of the country's most respected business house, that profit is "a dirty word". To take a more recent example, Arundhati Roy, India's Booker-prize novelist, not long ago wrote a long and impassioned article in one of India's weekly magazines portraying capitalists, especially foreign ones, as plunderers.

Mr Das, on the other hand, thinks that capitalism will cure many of the ills that Nehru's socialism compounded. The cosy corruption of old Indian business habits cannot withstand competition, he suggests. Although the commercial *bania* caste was useful in kick-starting Indian capitalism, Mr Das points out that in a liberalised economy governed by rules rather than patronage, companies cannot afford to hire employees on the basis of caste. As for poverty, contemporary India's worst blight, education will spread the benefits of economic growth to the masses.

One problem supporters of reform face is that its effects do not look very egalitarian, especially in an Indian context. Indians disagree whether the past decade of halting reform has reduced poverty. No one disputes that it has thrown up a vulgar, sharp-elbowed new middle class. Mr Gupta, with a tweedy

disdain, has made its members the villains of his book, not without reason: many dodge taxes and welcome the stark difference of income that ensures an endless supply of cheap servants. Mr Das nevertheless concludes that “whether India can deliver the goods” will depend a great deal on this new middle class.

Despite its occasional repetitions, “India Unbound” is not only more persuasive but more enjoyable. Mr Das, whose career spanned the darkest and brightest eras in Indian economic policy, tells much of his story autobiographically. When he was manager of the Vicks VapoRub brand in India, flu epidemics posed absurd dilemmas: should he boost production beyond licensed limits (a punishable offence) or leave market demand unsatisfied?

Mr Das looks back to the rise of Indian business families, some of which often began with enterprising young men outwitting British monopolists, and offers management advice to their heirs, many of them now addled by decades of planning and protection. His real interest, though, is in the info-tech companies that sprang up in the 1990s. They are India’s chance to achieve the rates of growth and poverty reduction that East Asia accomplished through manufacturing, or so Mr Das and many other IT-besotted Indians believe.

Though Mr Gupta prefers sovereignty to success, he makes good observations about the grip of tradition. India’s tendency to throw up humanitarian heroes like Mahatma Gandhi and Mother Teresa is a sign of weak institutions, he believes: where these are stronger, saints are less needed to protect the weak. Women stand out in South Asian politics, he explains, because they are assumed to lack characters of their own and can take on the charisma of their (often martyred) husbands or fathers. All in all, however, his book relies too much on the author’s opinions and too little on his expertise.

Mr Das’s faith that IT plus education will restore India to greatness and prosperity can sound over-hopeful. And he mentions only in passing the urgent needs of agriculture, which continues to occupy two-thirds of India’s people. But his book is informative, entertaining, and basically correct about India’s need to embrace capitalism more whole-heartedly, for all the costs and risks.

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Latin American painting

Filling out the form

Feb 15th 2001 | MEDELLIN
From The Economist print edition

AP

The palette was safer than the cape

"HOW come you paint so many fat ladies?" the schoolchildren kept asking the artist. They had come, in their thousands, to Medellin's old art-deco city hall, now transformed into a museum, to see the roly-poly figures with vacant, melancholy faces that instantly identify the work of Fernando Botero, perhaps Latin America's best known living artist. He had just given more than 100 of his paintings and a dozen of his bulbous bronze statues to the Colombian nation, and he was on hand late last autumn to inaugurate the gift. The donation, which includes an equal number of works from his collection of Impressionist and 20th-century masters, is to be shared by his native Medellin and by the Colombian capital, Bogota.

Having lived by choice for nearly 50 of his 68 years outside Colombia, Mr Botero was nevertheless in high spirits on his return. He has worked mostly in New York, Paris and Tuscany. But the world he paints—with its brothels and guitars, its tiled roofs and melons, its guerrillas and generals—is recognisably Latin American, and, to those who know, Colombian. Oddly, for a painter from such a poor country, there is a feeling of opulence and superabundance in his work, as people and objects balloon out to fill the painting space.

When repeated by a grown-up interviewer Mr Botero greets the question about his trademark fat people with a roar of laughter: "That's the price you have to pay for being famous; people tend to oversimplify your work." In the sing-song accent of Medellin that he has somehow managed to keep in all the time away, he says that he prefers to explain his big people with little people's faces by using the more technical and painterly term, "volume".

As a child, Mr Botero was sent to bull-fighting school but decided that painting would be safer and more fun. His high school then expelled him for publishing a press article in favour of Picasso and he fled provincial Medellin for good. First, in Italy, he discovered Giotto and Piero della Francesca, whom he calls "the true masters of volume". Then on a stay in Mexico in 1956, he made the visual discovery that determined his career: he drew a mandolin with a tiny sound-hole, which made the instrument look bigger than normal. "I knew there was something important in that drawing," he says, "and my talent was in recognising this fact."

Recognition by others came slowly. Like his figures, Mr Botero is hard to pigeonhole, even among Latin American artists. As to possible regional forebears, he has neither the epic vision of the Mexican muralists (whom he admires) nor the modernist commitments of earlier 20th-century Latin Americans such as Joaquin Torres-Garcia, Wilfredo Lam or Roberto Matta. Despite the toylike feel of his figures, he is too knowing to be a primitive, and for all his seemingly topical references—mocking scenes, for example, of military juntas—he is too dreamy to be a chronicler and too gentle for a parodist. Some critics have bracketed his work with the magical realist novels of his fellow Colombian, Gabriel Garcia Marquez. But this does not really work either. The truth is, Mr Botero is one of a kind. He himself describes his work as having a Colombian heart and an Italian head, with "a European painterly vocabulary and touches of Latin America's pre-Colombian and folk arts."

Being a figurative odd man out did not help him in New York or Paris in the 1960s, when abstraction or pop were what sold. As a quirky, classicising Colombian obsessed with volume, when flatness was the rage, he was cold-shouldered, or worse. One New York critic described his voluptuous nudes as "fetuses begotten by Mussolini on a peasant woman". Gentler voices wondered, with some justice, if Mr Botero

had not stumbled on a “thing”, which he then turned into a brand, without ever developing artistically. Certainly the initial kick from his work does not get stronger, and in his many classical allusions there is kitsch as well as homage.

Persistence, all the same, paid off. A breakthrough of sorts came in 1961, when he sold to the Museum of Modern Art in New York a Mona Lisa, mischievously painted in the style of an abstract expressionist. Sales of his paintings began to rise, and in 1979 his work was crowned with a retrospective at the Hirshhorn Museum in Washington, DC. (This success did not come without family misfortune: in 1974 a car smash had killed his small son and left him badly injured.)

Does the adversity show? Crossing his arms and raising his chin, Mr Botero says: “I have never been guided by what critics say, but by what I admire in the history of art.” It sounds arrogant. But he concedes that landscape—“empty space”—has defeated him, and he ends with the thought that he will never resolve anything completely.

Mr Botero still works every day in one of his many studios on either side of the Atlantic. But not in Colombia, where a kidnapping threat hangs over the rich or famous (he is both). If peace came to his country, he says, he would love to return home, adding—as matador or painter?—that maybe he could then “teach someone a thing or two.”

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Slight problem

Feb 15th 2001
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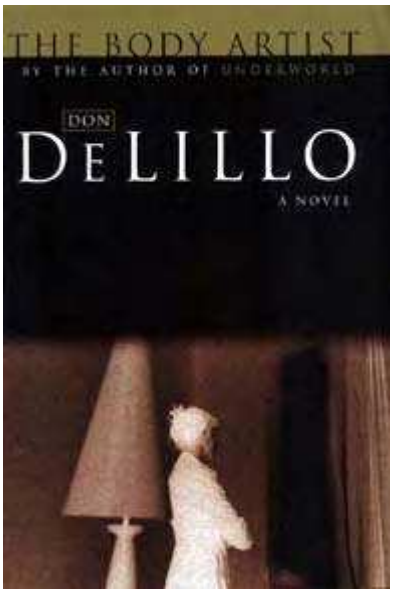
THE BODY ARTIST
By Don DeLillo

Scribner; 128 pages; $22.
Picador; £13.99

Buy it at
Amazon.com
Amazon.co.uk



DON DELILLO'S previous novel, "Underworld" (1997), was a vast behemoth of a book. "The Body Artist" could scarcely be more different. Though billed as a novel, it is really just a short story, and slight as a blade of grass.

The story opens in the kitchen of a country house, somewhere outside New York. Lauren, a performance artist who works with her body, and her husband, Rey, a film maker, squabble distractedly. Rey leaves suddenly for the city, where, we later learn, he shoots himself.

When Lauren returns to the house she finds a stranger in a spare bedroom. The stranger cannot or will not explain his presence there. Lauren decides that he is harmless and allows him to stay. She nicknames him Mr Tuttle. Nothing he says makes much sense; nevertheless, over the next few weeks he and Lauren talk (after a fashion) a good deal, mostly about Rey. Eventually their relationship becomes sexual. Yet Mr Tuttle remains mysterious. The questions pile up. Who is he? Where has he come from? How long has he been lurking in the house? Is he mad? Is he a ghost? Is he simply a figment of Lauren's imagination?

Lauren's grief is tightly bound up with her sense of time. She is fascinated by the curious overlapping of past, present and future in Mr Tuttle's speech (she thinks of him as "a man who remembers the future"), as well as by his spooky gift for mimicry. He repeats fragments of conversations between Rey and Lauren, imitating their voices perfectly. In this way the story's twinned themes of identity and impersonation—matters in which Lauren, as a body artist, has a keen professional interest—are drawn out.

The story is shot through with beautiful images and subtle perceptions. But, bereft of the other conventional pleasures of fiction—narrative, character and ordinary speech—"The Body Artist" is a frustrating and unsatisfying piece of work.

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Eating habits

Mac attack

Feb 15th 2001
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ARE burgers and fries a product of the profound social changes of the past 50 years, or were they to a large extent responsible for them? The author of this diatribe against multinational restaurant brands opts for the latter explanation. “There is nothing inevitable about the fast food nation that surrounds us,” he concludes. “The triumph of McDonald’s and its imitators was by no means pre-ordained.” But it happened nevertheless and, in his view, it is to be blamed for many of the evils of modern America and their global spread. The emergence of the corporate colossus, followed inexorably by its demonisation, is a familiar pattern in American business history.

FAST FOOD NATION: THE DARK SIDE OF THE ALL-AMERICAN MEAL.
By Eric Schlosser

Houghton Mifflin; 356 pages; $25

Buy it at
Amazon.com
Amazon.co.uk

The modern phenomenon of fast food originated in California just before the second world war. Its first manifestation was kerb service, with meals delivered to motorists by comely young carhops. Richard and Maurice McDonald, who ran a drive-in burger bar in San Bernardino near Los Angeles, became tired of having constantly to replace their carhops and wash up crockery and cutlery. In 1948 they decided to make customers serve themselves, while restricting the menu to items that could be prepared by unskilled cooks and eaten without plates, knives or forks.

The McDonald brothers were soon bought out by the entrepreneurial Ray Kroc, who franchised their name and techniques so successfully that there is now scarcely a corner of the world that is free from their trademark golden arches, invariably spawning a cluster of rival chains selling hamburgers, pizzas, or fried chicken, doled out by smiling teenagers willing to accept minimal pay. They are cheap, cheerful, popular, and children love them.

So just what is Mr Schlosser’s beef? Apart from his nutritional reservations—too much fat, salt and sugar—he documents how, as the chains expanded, they were able to dictate terms to the suppliers of potatoes and ground beef, their staple ingredients. This caused an upheaval in agribusiness, as a few large suppliers quickly forced less efficient producers out of the market. The drive to keep down costs and increase the speed of production led to the employment of cheap unskilled labour and to the widespread toleration of dangerous and unhygienic practices among growers and processors, which regulatory bodies have failed to police.

Mr Schlosser, who is a skilful and persuasive investigative reporter, sees all this as a damaging corruption of the free market. He is especially incensed by promotional techniques aimed at impressionable children. A 1997 giveaway of Teenie Beanie Babies increased the sale of McDonalds’ Happy Meals from 10m a week to 10m a day. And a survey found that 96% of American schoolchildren could identify Ronald McDonald, the chain’s mascot. Only Santa Claus scored higher.

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Anne Lindbergh

Feb 15th 2001
From The Economist print edition

Anne Morrow Lindbergh, a hero's co-pilot, died on February 7th, aged 94

EPA

THE simple facts of Anne Lindbergh's life are that she married Charles Lindbergh, the first person to fly solo across the Atlantic, a feat that briefly made him the world's most famous man; and that she endured what was called the "crime of the century" when their first child was kidnapped and found murdered. But Anne, far from being a simple soul, was interestingly complicated. Her husband was the simple one, a man happy mainly with machines.

In 1927, Lindbergh, aged 25, until then an airmail pilot, flew a single-engined aircraft, *The Spirit of St Louis*, from New York to Paris. Wildly enthusiastic crowds greeted him in France, and even wilder ones on his return to the United States. The Atlantic had often been flown before, notably by John Alcock and Arthur Brown, Britons who had made the first non-stop flight in 1919. But a lone challenger against the elements makes a special appeal to the public's imagination.

Lindbergh, the tall, shy hero of this seemingly crazy adventure, matched America's mood of the time. This was the "jazz age" of Scott Fitzgerald, driven by a madly speculative economy. Anne Morrow, as she then was, aged 21 and still at university, can be forgiven for writing in her diary about the impact on her of the unassuming "boy" who had pitted himself against nature, solely and bravely. What could she say to him, she wrote, that would not be "frivolous, superficial"? Whatever she said, she charmed the mythmaker at a reception in Mexico city given by her father, the American ambassador. Two years later, in 1929, they were married. Charles, she wrote, was "a knight in shining armour, with myself as his devoted page." Later, she was to observe that this was hardly a good basis for marriage.

The kidnap

The late 1920s and 1930s were a time of aviation feats. Anne and Charles flew here and there, setting new records, charting new air-routes and being feted by royals and dictators. She learnt to fly and became his co-pilot and navigator. Newspapers happily called them "the first couple of the skies, the eagle and his mate". Money was never a problem. Charles was a well-paid adviser to America's growing aviation industry. And, anyway, Anne's father was a millionaire banker.

In 1932, their son was taken from their home in the optimistically named Hopewell, New Jersey. After ten weeks of false leads and attempts to pay ransom, the child was found dead, apparently killed on the night of the kidnapping. A carpenter was tried and executed for the crime in 1936. The Lindberghs had five other children, which suggested to outsiders that their marriage was a close one. A. Scott Berg, who was given access to the family papers after Charles's death in 1974, wrote in a biography that the marriage was a "case history of control and repression". Some thought that Charles, at heart a mechanic, applied to personal matters the same control he sought with his machines. Anne had an affair with Antoine de Saint-Exupéry, another aviator, and another hero, this time to the French, but, as expressed in his writing ("Night Flight", "The Little Prince") a more sensitive man than Lindbergh.

Anne Lindbergh wrote 13 books. The best known is "Gift from the Sea", published in 1955. It was an instant success and remained a bestseller for years. The book contains much homely philosophy. Contentment, she wrote, could be found through solitude and introspection. But, perhaps more interestingly, her book foreshadowed the growth of the feminist movement in the United States. At 49,

she no longer saw herself as the devoted page. Although Anne was hardly an everyday housewife herself, she echoed the experiences of millions of women when she wrote that the routine of the home “destroys the soul”.

For many Americans “Gift from the Sea” was an antidote to “The Wave of the Future”, an isolationist manifesto she published in 1940 when Europe was in the grip of the second world war. Isolationism was a widespread, and indeed respectable, political force until the United States was attacked by Japan in 1941. But her remarks that fascism and communism were inevitable effects of the times were not well received.

In a private letter she called Hitler “a very great man” but “not greedy for power”. During a visit by the Lindberghs to Germany in 1938, Charles had received a medal from Hermann Goering, Hitler’s air minister. Anne called it “the albatross”. Inevitably, the albatross was recalled by Charles’s critics when he, too, sought to persuade the United States to stay out of the war. Anne said later that she and Charles had at the time both been “very blind” to the evils of the system.

These days Charles Lindbergh still has his admirers. Hero worship has become unfashionable except for pop stars, but Charles gets a mention in scientific journals for his work on the artificial heart. He helped to pay for early research on space rockets. As for Anne Lindbergh, although she became aware of the flaws in her knight, Charles never quite lost his shine. He opened the door to “real life”, she said.

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OUTPUT, DEMAND AND JOBS

Feb 15th 2001
From The Economist print edition

Germany's industrial output rose by 0.7% in December. Its year-on-year growth quickened to 5.5%. Britain's unemployment, measured by total claimants, unexpectedly fell in January to within a whisker of one million—the lowest in 26 years. In the same month the jobless rate in Canada edged up to 6.9%.

% change at annual rate	GDP		The Economist poll GDP forecasts		Industrial production		Retail sales (volume)	Unemployment % rate	
	3 mths†	1 year	2000	2001	3 mths†	1 year	1 year	latest	year ago
Australia	+ 2.6	+ 4.2 Q3	+ 4.3	+ 3.2	– 1.5	+ 4.2 Q3*	– 0.8 Q3	6.7 Jan	6.9
Austria	+ 1.2	+ 1.9 Q3	+ 3.4	+ 2.4	na	+ 6.7 Oct*	– 1.1 Oct	3.3 Dec	3.6
Belgium	+ 2.0	+ 3.2 Q3	+ 3.9	+ 2.7	na	+ 7.3 Dec*	+ 6.4 Nov	10.7 Jan*	11.3
Britain	+ 1.0	+ 2.4 Q4	+ 3.1	+ 2.5	– 2.9	+ 0.5 Dec	+ 3.3 Jan	5.3 Dec‡	5.9
Canada	+ 4.8	+ 5.0 Q3	+ 4.9	+ 2.8	+ 1.2	+ 4.5 Nov	+ 4.6 Nov	6.9 Jan	6.8
Denmark	+ 2.0	+ 2.7 Q3	+ 2.6	+ 2.1	na	+ 8.6 Dec	– 1.0 Dec	5.4 Dec	5.4
France	+ 2.3	+ 3.0 Q3	+ 3.1	+ 2.6	+ 3.6	+ 2.3 Nov	– 1.5 Dec	9.2 Dec	10.6
Germany	+ 2.3	+ 2.8 Q3	+ 3.1	+ 2.4	+ 0.9	+ 5.5 Dec	– 2.9 Dec	9.3 Jan	10.1
Italy	+ 3.2	+ 2.7 Q4	+ 2.6	+ 2.2	+ 5.9	– 3.3 Dec	– 1.2 Nov	10.0 Oct	11.1
Japan	– 2.4	+ 0.5 Q3	+ 1.7	+ 1.4	+ 1.4	+ 3.8 Dec	– 1.1 Dec	4.8 Dec	4.7
Netherlands	+ 5.1	+ 3.1 Q4	+ 3.9	+ 3.0	+ 8.5	+ 9.4 Dec	+ 2.9 Nov	2.6 Dec§	2.7
Spain	+ 2.2	+ 3.9 Q3	+ 4.1	+ 3.1	+ 0.1	+ 4.4 Dec	na	13.7 Dec	15.1
Sweden	+ 3.9	+ 4.0 Q3	+ 4.0	+ 3.2	na	+ 9.9 Nov	+ 3.7 Dec	3.7 Dec*	5.3
Switzerland	+ 2.0	+ 3.6 Q3	+ 3.4	+ 2.2	na	+ 6.9 Q3*	– 2.0 Dec	2.0 Jan*	2.6
United States	+ 1.4	+ 3.5 Q4	+ 5.0	+ 1.8	– 1.1	+ 3.1 Dec	+ 2.6 Dec	4.2 Jan	4.0
Euro area	+ 2.4	+ 3.3 Q3	+ 3.4	+ 2.6	+ 5.4	+ 4.4 Nov	+ 1.2 Nov	8.7 Dec	9.6
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*								
Finland	+ 7.0	+ 5.6 Q3	na	na	+17.2	+ 7.0 Dec	+ 2.2 Oct	8.3 Dec*	9.1
Greece	na	+ 2.5 2000	na	na	na	+ 3.1 Nov	+ 9.7 Aug	na	na
Iceland	na	+ 4.4 1999	na	na	na	+ 4.2 1999	na	1.3 Dec	1.7
Ireland	+21.5	+12.2 Q2	na	na	+31.0	+ 5.2 Jul	+ 9.7 Nov	3.6 Jan	4.6
Luxembourg	na	+ 7.5 1999	na	na	na	– 1.9 Oct*	+15.8 Sep	2.6 Dec	2.9
New Zealand	+ 2.7	+ 2.4 Q3	na	na	na	+11.5 Q3*	+ 1.7 Q3	5.6 Q4	6.3
Norway	+ 0.2	+ 0.9 Q4	na	na	+ 5.5	– 2.7 Dec	+ 0.7 Dec	3.1 Q4	3.2
Portugal	+ 0.8	+ 2.6 Q2	na	na	na	+ 6.2 Dec*	+ 3.8 Oct	4.0 Q3	4.2

*Not seasonally adjusted. †Average of latest 3 months compared with average of previous 3 months, at annual rate. ‡Oct-Dec; claimant count rate 3.5% in January. §Oct-Dec.

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COMMODITY PRICE INDEX

Feb 15th 2001
From The Economist print edition

America's timber manufacturers want the Bush administration to impose steep duties on Canadian softwood imports or negotiate a new bilateral pact when a five-year agreement expires at the end of March. They claim that Canadian mills get unfair subsidies, thanks to prices set by the government that provide them with cheap logs. (The Canadian government owns 95% of the country's timber.) The current pact between the countries limits imports to America by imposing a tariff above an initial quota. But record imports of Canadian softwood—95% of them tariff-free—still comprised a third of the American market in 2000. With timber prices at decade-long lows, it is no surprise that American mills are losing money and many have closed.

1995=100	Feb 6th*	Feb 13th*	% change on one month	% change on one year
Dollar index				
All items	71.8	71.2	– 1.9	– 5.3
Food	70.5	70.0	– 2.8	– 2.5
Industrials				
All	73.7	72.9	– 0.7	– 8.7
Nfa†	66.6	65.1	– 2.6	– 12.3
Metals	79.7	79.5	+ 0.6	– 6.1
Sterling index				
All items	77.6	77.4	– 0.7	+ 4.2
Food	76.1	76.0	– 1.6	+ 7.2
Industrials	79.6	79.2	+ 0.6	+ 0.4
Euro index				
All items	101.4	101.7	+ 0.2	+ 1.1
Food	99.5	99.9	– 0.8	+ 4.1
Industrials	104.0	104.1	+ 1.4	– 2.5
Yen index				
All items	87.9	89.0	– 2.2	+ 2.2
Food	86.2	87.4	– 3.1	+ 5.2
Industrials	90.1	91.1	– 1.0	– 1.4
Gold				
$ per oz	263.25	261.05	– 1.3	– 14.0
Crude oil North Sea Brent				
$ per barrel	28.58	28.09	+ 8.0	– 0.5
West Texas Intermediate				
$ per barrel	30.26	30.12	– 0.5	+ 0.1

* Provisional. † Non-food agriculturals.

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SWEDEN

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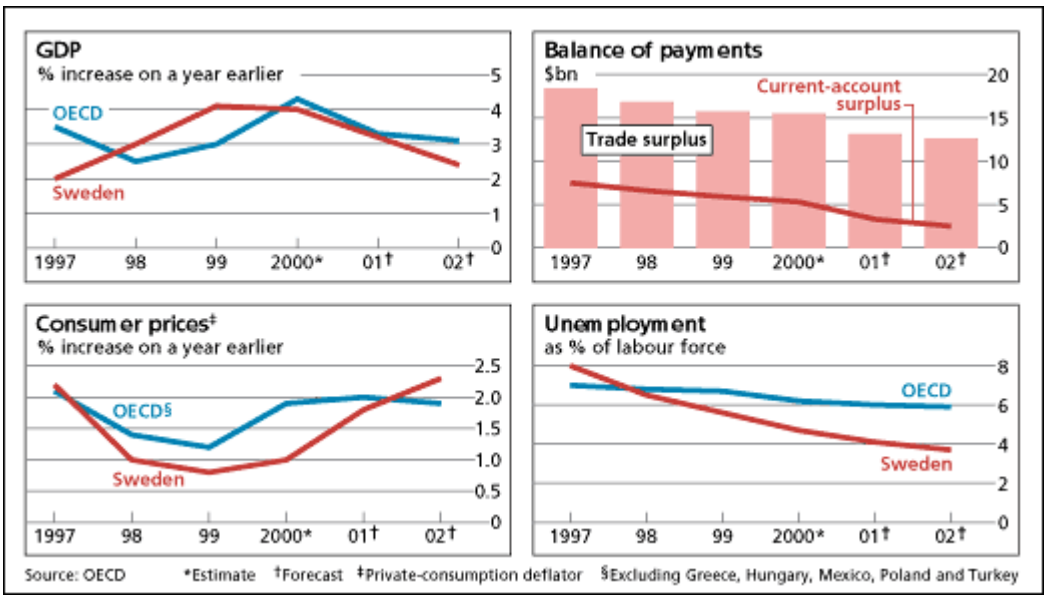
From The Economist print edition

The outlook for Sweden remains good, according to the OECD's latest assessment. The economic trauma of the early 1990s is now a distant memory. After two years in which the economy has grown at around 4% a year, the expansion is predicted to slow only modestly, to 3.2%, in 2001. Not until next year will the slowdown bring actual growth into line with potential growth, which the OECD calculates to be about 2.5%. The unemployment rate, which was above the OECD's average as recently as 1997, is forecast to continue its decline, reaching 4% of the labour force by 2002. The only small cloud on the horizon is inflation: it has been below the Riksbank's target of 2.0% for the past five years, but even with higher interest rates the OECD expects it to exceed the target in 2002.



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PRICES AND WAGES

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From The Economist print edition

In January Britain's annual consumer-price inflation rate fell to 2.7%. Excluding mortgages, the rate was only 1.8%, the lowest since records began in January 1976. In the Netherlands inflation jumped to 4.2%, the highest since May 1992. In the year to January producer-price inflation slowed to 1.9% in Britain and to 3.8% in Germany.

% change at annual rate	Consumer prices*		The Economist poll consumer prices forecast		Producer prices*		Wages/earnings	
	3 mths†	1 year	2000	2001	3 mths†	1 year	3 mths†	1 year
Australia	+ 1.2	+ 5.8 Q4	+ 4.6	+ 4.1	+10.2	+ 8.4 Q4	– 3.3	+ 5.0 Q4
Austria	+ 2.8	+ 2.6 Dec	+ 2.1	+ 1.7	+ 2.1	+ 3.2 Jan	+ 1.9	+ 2.2 Dec
Belgium	+ 0.7	+ 2.2 Jan	+ 2.6	+ 2.1	+16.2	+10.0 Nov	+ 3.7	+ 1.6 Q4
Britain	+ 1.3	+ 2.7 Jan	+ 2.4	+ 2.2	+ 0.2	+ 1.9 Jan	+ 7.0	+ 4.4 Dec
Canada	+ 2.5	+ 3.2 Dec	+ 2.7	+ 2.4	+ 4.9	+ 3.5 Dec	+ 0.7	+ 3.4 Nov
Denmark	+ 1.3	+ 2.3 Jan	+ 2.9	+ 2.3	+ 3.0	+ 3.9 Dec	+ 7.0	+ 3.8 Q3
France	+ 1.7	+ 1.6 Dec	+ 1.7	+ 1.4	+ 5.2	+ 4.7 Dec	+ 4.6	+ 5.3 Q3
Germany	+ 1.7	+ 2.4 Jan	+ 2.0	+ 1.5	+ 0.8	+ 3.8 Jan	na	+ 1.8 Nov*
Italy	+ 3.1	+ 3.0 Jan	+ 2.5	+ 2.1	+ 6.1	+ 6.2 Dec	+ 0.9	+ 1.7 Dec*
Japan	+ 0.7	– 0.2 Dec	– 0.7	– 0.4	+ 1.4	+ 1.2 Jan	na	+ 1.8 Dec
Netherlands	+ 2.3	+ 4.2 Jan	+ 2.5	+ 3.0	+ 7.4	+ 7.6 Dec	+ 1.4	+ 3.0 Dec
Spain	+ 3.0	+ 3.7 Jan	+ 3.4	+ 2.9	+ 4.8	+ 5.0 Jan	+ 3.2	+ 2.4 Q3
Sweden	na	+ 1.4 Dec	+ 1.3	+ 1.7	+ 6.7	+ 3.7 Dec	+ 0.1	+ 2.1 Nov*
Switzerland	+ 2.0	+ 1.3 Jan	+ 1.6	+ 1.4	nil	+ 1.4 Dec	na	+ 0.2 1999
United States	+ 2.7	+ 3.4 Dec	+ 3.4	+ 2.5	+ 3.5	+ 3.6 Dec	+ 4.8	+ 3.9 Jan
Euro area	+ 2.1	+ 2.6 Dec	+ 2.3	+ 1.9	+ 5.7	+ 5.4 Dec	+ 1.2	+ 1.8 Q3
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Finland	+ 0.1	+ 3.3 Jan	na	na	+ 5.4	+ 6.0 Dec	+ 1.3	+ 4.4 Q3*
Greece	+12.6	+ 3.9 Dec	na	na	+13.8	+ 9.0 Nov	na	na
Iceland	+ 2.8	+ 4.1 Feb	na	na	+ 2.8	+ 4.4 Jan	+ 1.9	+ 7.6 Dec
Ireland	+ 3.0	+ 5.2 Jan	na	na	+ 4.2	+ 4.5 Dec	+17.5	+ 7.0 Q2*
Luxembourg	+ 5.5	+ 3.5 Dec	na	na	+ 0.3	+ 5.0 Nov	+ 7.7	+ 8.4 Oct*
New Zealand	+ 4.7	+ 4.0 Q4	na	na	+16.1	+ 8.0 Q3	+ 1.8	+ 1.6 Q4
Norway	+ 4.2	+ 3.4 Jan	na	na	na	+ 3.3 Jan	+ 2.9	+ 3.8 Q3*
Portugal	+ 4.1	+ 3.9 Dec	na	na	+16.1	+13.4 Dec	na	+ 3.0 Nov*

*Not seasonally adjusted. †Average of latest 3 months compared with average of previous 3 months, at annual rate.

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MONEY AND INTEREST RATES

Feb 15th 2001
From The Economist print edition

On February 9th, the Bank of Japan announced a cut in its discount rate from 0.5% to 0.35%. Demand for government bonds increased, and yields were pushed to a 22-month low. American short-term interest rates continued to edge down.

	Money supply*			Interest rates % p.a. (Feb 14th 2001)							
	% rise on year ago			over-	3-mth money market		banks	2-year	10-year gov't		corporate
	narrow	broad		night	latest	year ago	prime	gov't bonds	latest†	year ago	bonds
Australia	+ 9.3	+ 4.8	Dec	5.75	5.65	5.81	8.50	4.95	5.32	7.06	6.64
Britain	+ 4.8	+ 8.2	Dec	5.63	5.69	6.16	7.00	5.23	4.80	5.69	6.06
Canada	+14.2	+ 8.0	Dec	5.31	5.16	5.07	7.25	5.09	5.49	6.45	7.03
Denmark	na	+ 1.8	Dec	5.15	5.02	3.91	8.00	4.95	5.03	5.83	7.14
Japan	+ 4.6	+ 2.4	Jan	0.23	0.33	0.05	1.50	0.27	1.40	1.77	1.53§
Sweden	+ 1.9	+ 2.1	Dec	4.00	4.00	3.86	4.50	4.09	4.77	5.90	4.40
Switzerland	– 2.6	– 1.7	Dec	3.47	3.48	2.57	5.50	3.31	3.38	3.67	4.28
United States	– 2.9	+ 8.6	Dec	5.50	5.18	5.85	8.50	4.83	5.23	6.97	7.05
Euro area‡	+ 5.5	+ 4.9	Dec	4.87	4.66	3.69	5.55	4.42	4.72	5.51	5.57

†France 4.86, Germany 4.72, Italy 5.16. Benchmarks: Japan No.228 1.41, US 30-yr 5.44. ‡Germany for prime and bonds. §New series.

*Narrow: M1 except Britain M0, broad: M2 or M3 except Britain M4.Sources: Commerzbank, Den Danske, J.P. Morgan Chase, Royal Bank of Canada, Svenska Handelsbanken, Warburg Dillon Read, WEFA Group, Westpac, Thomson Financial Datastream.Rates cannot be construed as banks' offers.

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GOVERNMENT DEBT

Feb 15th 2001
From The Economist print edition

In 1999 Greece's government was the biggest borrower in the OECD relative to the size its economy. Its total outstanding central-government debt was 108% of GDP—a sharp rise from 1993, when the ratio was 102%. Japan was the second-deepest in hock, with debts of 106% of GDP in 1999. In 1993, borrowings by the Japanese government came to only 61% of GDP. New Zealand's government has been the most successful at reducing its debts; it cut them by more than half, from 65% of GDP in 1993 to 31% in 1999.

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TRADE, EXCHANGE RATES AND BUDGETS

Feb 15th 2001
From The Economist print edition

Germany had a current-account deficit of $7.0 billion in December, capping a total deficit for the year of almost $30 billion—50% more than in 1999. Its trade surplus shrank from $69.3 billion to $51.6 billion last year. Japan's current-account surplus in 2000 was 10% bigger, in dollar terms, than in 1999. The trade-weighted Australian dollar fell by 2.4% after a cut in interest rates.

	Trade balance*, $bn		Current account			Exchange rate		Currency units					Budget balance % of GDP 2000§
	latest month	latest 12 months	$bn latest 12 mths	The Economist poll % of GDP, forecast 2000	2001	trade-weighted† Feb 14th	year ago	per $ Feb 14th	per $ year ago	per £	per euro	per ¥100	
Australia	− 0.29 Dec	− 4.6	− 17.8 Q3	-4.2	-3.4	72.0	81.1	1.89	1.59	2.76	1.76	1.63	0.9
Austria	+ 0.10 Nov§	− 4.1	− 4.4 Nov	-2.6	-2.4	100.4	100.7	15.0	14.0	21.9	14.0	12.91	-1.6
Belgium	− 0.01 Nov§	+ 12.8	+ 10.3 Sep	4.0	4.0	99.2	99.4	43.9	41.0	64.2	41.0	37.9	-0.1
Britain	− 3.06 Nov	− 42.4	− 16.3 Q3	-1.5	-1.8	104.9	108.6	0.68	0.62	–	0.64	0.59	2.7
Canada	+ 2.91 Nov	+ 33.6	+ 7.7 Q3	1.3	0.6	78.2	81.2	1.53	1.45	2.23	1.42	1.32	2.5
Denmark	+ 0.39 Dec	+ 5.0	+ 2.4 Dec	1.4	1.4	102.0	101.7	8.13	7.57	11.9	7.58	7.00	2.7
France	+ 0.03 Dec	+ 1.9	+ 25.6 Nov	2.1	1.9	101.9	102.4	7.14	6.67	10.4	6.66	6.16	-1.4
Germany	+ 1.70 Dec	+ 51.6	− 29.8 Dec	-1.3	-1.0	98.9	99.4	2.13	1.99	3.11	1.99	1.84	1.4
Italy	− 0.18 Nov	+ 1.3	− 5.3 Nov	-0.3	-0.2	72.7	73.1	2,108	1,969	3,082	1,966	1,817	-0.1
Japan	+ 6.57 Dec	+ 117.0	+ 117.7 Dec	2.5	2.2	143.1	147.1	117	109	170	109	–	-6.0
Netherlands	+ 1.14 Nov§	+ 12.4	+ 13.9 Q3	4.3	4.0	98.1	98.4	2.40	2.24	3.51	2.24	2.07	1.6
Spain	− 3.10 Oct	− 39.6	− 19.2 Oct	-3.4	-3.0	74.4	74.5	181	169	265	169	156	-0.3
Sweden	+ 0.89 Dec	+ 14.1	+ 5.5 Dec	2.1	2.1	77.6	82.8	9.86	8.68	14.4	9.19	8.50	3.4
Switzerland	− 0.17 Dec§	− 1.1	+ 32.5 Q3	12.3	11.7	107.7	103.4	1.67	1.63	2.44	1.56	1.44	na
United States	− 39.00 Nov	− 441.7	− 416.5 Q3	-4.3	-4.2	115.4	108.1	–	–	1.46	0.93	0.86	2.3
Euro area	+ 1.45 Nov§	+ 13.5	− 26.2 Nov	-0.3	-0.2	79.4	81.3	1.09	1.02	1.59	–	0.94	0.3
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*												
Finland	+ 0.98 Nov§	+ 13.3	+ 8.9 Nov	na	na	78.2	77.8	6.47	6.05	9.46	6.04	5.58	4.0
Greece	− 1.80 Q3	− 7.2	− 7.6 Sep	na	na	57.5	58.9	371	339	542	346	320	-1.0
Iceland	− 0.03 Nov§	− 0.5	− 0.7 Q2	na	na	na	na	86.0	72.6	126	80.2	74.2	2.8
Ireland	+ 2.85 Oct	+ 26.0	+ 0.2 Q3	na	na	87.9	88.0	1.17	0.80	1.70	1.09	1.01	5.6
Luxembourg	− 0.19 Nov	− 2.5	+ 1.6 Q3	na	na	99.2	99.4	43.9	41.0	64.2	41.0	37.9	na
New Zealand	− 0.02 Dec§	− 0.6	− 3.3 Q3	na	na	79.6	84.4	2.33	2.04	3.41	2.17	2.01	0.5
Norway	+ 2.17 Dec	+ 25.5	+ 21.4 Nov	na	na	93.1	93.9	8.96	8.24	13.1	8.35	7.72	14.0
Portugal	− 1.00 Sep§	− 15.0	− 11.0 Nov	na	na	89.5	89.5	218	204	319	204	188	-1.5

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †1990=100, Bank of England. §OECD estimate. §Not seasonally adjusted.

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STOCKMARKETS

Feb 15th 2001
From The Economist print edition

The Nasdaq lost 4.5% as hopes of swift interest-rate cuts were dashed after a speech by Alan Greenspan. The Fed's chairman suggested that an American recovery is imminent. European stocks also lost ground; telecom and tech stocks led the way.

Market indices	Feb 14th	2000-01 high	2000-01 low	% change on one week	% change on one year	% change on record high	Dec 31st 1999 in local currency	Dec 31st 1999 in $ terms
Australia (All Ordinaries)	3,294.8	3,330.4	2,920.0	+ 1.0	+ 4.7	– 1.1	+ 4.5	– 15.5
Austria (ATX)	1,158.5	1,236.1	1,029.4	+ 0.1	+ 3.6	– 33.3	– 3.3	– 11.4
Belgium (Bel 20)	3,013.7	3,340.4	2,532.2	– 0.1	+ 6.5	– 18.1	– 9.8	– 17.3
Britain (FTSE 100)	6,176.2	6,930.2	5,994.6	– 0.8	+ 0.5	– 10.9	– 10.9	– 19.3
Canada (Toronto Composite)	8,911.5	11,388.8	8,114.2	– 2.5	– 5.5	– 21.8	+ 5.9	+ 0.6
Denmark (Copenhagen SE)	959.2	1,039.0	755.1	– 2.7	+ 17.4	– 7.7	+ 23.8	+ 13.1
France (SBF 250)	3,624.4	4,390.7	3,512.8	– 1.9	– 6.7	– 17.5	– 4.9	– 12.9
Germany (Xetra DAX)	6,490.2	8,065.0	6,200.7	– 1.3	– 13.4	– 19.5	– 6.7	– 14.5
Italy (BCI)	1,851.3	2,182.3	1,666.4	– 1.7	– 7.3	– 15.2	+ 1.9	– 6.6
Japan (Nikkei 225)	13,284.1	20,833.2	13,138.2	– 0.6	– 32.2	– 65.9	– 29.8	– 38.1
(Topix)	1,255.2	2,507.6	1,230.1	– 1.0	– 25.8	– 56.5	– 27.1	– 35.7
Netherlands (EOE)	621.3	701.6	612.4	– 0.6	– 6.0	– 11.4	– 7.5	– 15.2
Spain (Madrid SE)	927.9	1,146.2	857.9	– 1.6	– 14.7	– 19.0	– 8.0	– 15.7
Sweden (Affarsvarlden Gen)	264.4§	399.8§	261.7§	– 6.0	– 95.7	– 33.9	– 16.3	– 27.5
Switzerland (Swiss Market)	7,813.2	8,377.0	6,781.4	– 2.6	+ 12.7	– 7.1	+ 3.2	– 1.1
United States (DJIA)	10,795.4	11,723.0	9,796.0	– 1.4	+ 2.2	– 7.9	– 6.1	– 6.1
(S&P 500)	1,315.8	1,527.5	1,264.7	– 1.9	– 5.2	– 13.9	– 10.4	– 10.4
(Nasdaq Comp)	2,491.4	5,048.6	2,291.9	– 4.5	– 43.7	– 50.7	– 38.8	– 38.8
Europe (FTSE Eurotop 300) *	1,491.1	1,705.0	1,472.5	– 1.3	– 3.4	– 12.5	– 5.8	– 13.7
Euro area (FTSE Ebloc 100) *	1,339.0	1,550.5	1,277.7	– 1.8	– 6.0	– 32.4	– 3.3	– 11.4
World (MSCI) †	1,191.4	1,448.8	1,178.2	– 2.6	– 12.1	– 18.0	na	– 16.4
World bond market (Salomon) ‡	441.4	447.8	414.8	– 0.7	+ 3.6	– 4.0	na	+ 1.0

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms. ‡Salomon Smith Barney World Government Bond Index, total return, in dollar terms. §Rebased.

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FOREIGN INVESTMENT

Feb 15th 2001
From The Economist print edition

Despite concerns about the slowdown in its economy, America remains the most attractive destination for foreign direct investment, according to an annual survey by A.T. Kearney, a management-consulting firm. Executives of 135 of the world's 1,000 biggest companies gave marks on a scale of one to three for their likelihood to invest in foreign countries. Size matters. Though the sheer scale of the American market still pulls investors in, China and Brazil, two big emerging economies that are expected to grow quickly, now occupy the second and third spots. India is also in the top seven. The biggest shift in investors' outlook, says A.T. Kearney, has been towards Mexico. American firms rate their NAFTA partner as their top destination for investment. Executives have also brightened their view of Asian "tiger" economies. The ratings of both Singapore and Taiwan have improved markedly in the past year. Britain has dropped to fourth place, from second last year. Although the executives said that uncertainty over Britain's entry to the euro could affect investment, general economic performance and exchange rates mattered more.

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FINANCIAL MARKETS

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From The Economist print edition

Moscow gained 7.2% this week as speculative interest buoyed an already volatile market. Financial and construction shares helped push Seoul up by 4.8%, while Bangkok's gains from earlier in the week were reversed following MSCI's decision not to increase Thailand's country weights in its indices.

	Currency units per $ Feb 14th	year ago	per £ Feb 14th	Interest rates short-term % p.a.	Stockmarkets Feb 14th	% change on one week	Dec 31st 1999 in local currency	in $ terms
China	8.28	8.28	12.1	5.40	2,077.3	− 0.8	+ 43.1	+ 43.1
Hong Kong	7.80	7.78	11.4	5.21	15,860.4	− 1.2	− 6.5	− 6.8
India	46.6	43.6	68.0	8.58	4,363.1	+ 1.2	12.8	18.6
Indonesia	9,603	7,425	14,021	15 04	423.2	− 4.8	− 37.5	− 54 1
Malaysia	3 80	3.80	5.55	3 30	714.5	− 2.0	− 12.0	− 12 0
Philippines	48.0	40.5	70.1	12.31	1,687.7	+ 1.7	− 21.2	− 33.9
Singapore	1.75	1.70	2.55	2.08	1,966.1	+ 1.2	− 20.7	− 24.3
South Korea	1,252	1,126	1,827	5.69	603.8	+ 4.8	− 41.3	− 46.8
Taiwan	32.3	30.7	47.1	5.15	5,887.7	+ 3.4	30.3	32.3
Thailand	42.4	37 7	61 9	2 75	315.3	− 3.7	− 34.6	− 42 0
Argentina	1.00	1.00	1.46	6.45	494.9	− 1.8	− 9.8	− 9.8
Brazil	1.99	1.77	2.90	15.28	17,120.1	+ 1.8	+ 0.2	− 9.7
Chile	560	513	817	4.21*	4,949.3	− 1.3	− 4.2	− 9.4
Colombia	2,243	1,947	3,275	13.33	839.7	+ 4.7	15.8	29.6
Mexico	9.73	9.37	14.2	17.07	6,360.1	+ 0.2	10.8	13.1
Peru	3 53	3.45	5 2	11 04	1,318.5	+ 0.2	− 28.2	− 28 5
Venezuela	703	659	1,027	16.22	7,706.9	− 2.7	+ 42.2	+ 31.2
Egypt	3.88	3.42	5.66	9.09	7,267.3	− 3.6	− 44.2	− 50.8
Israel	4.10	4.04	5.99	5.72	457.1	+ 2.9	− 6.2	− 4.8
South Africa	7.89	6.34	11.5	10.45	9,191.9	+ 0.4	+ 7.6	16.0
Turkey	683,085	564,050	997,372	46 00	9,971.7	+ 2.5	− 34.4	− 47 9
Czech Republic	37.6	36.3	54.9	5.31	465.7	− 4.2	− 4.9	− 9.1
Hungary	289	260	422	11.06	7,635.8	− 1.4	− 13.4	− 23.9
Poland	4.09	4.14	5.97	18.55	16,561.9	− 1.6	− 8.4	− 7.2
Russia	28.7	28.8	41.9	25.00	178.6†	+ 7.2	+ 4.7	+ 0.5

* nflation-adjusted † n dollar terms.

Sources: National statistics offices, central banks and stock exchanges; Primark Datastream; EIU; Reuters; Warburg Dillon Read; J.P. Morgan; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Bank Ekspres; Deutsche Bank; *Russian Economic Trends*.

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ECONOMY

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Brazil's GDP grew by 4.4% in the year to the fourth quarter. It was helped by a surge in industrial production, which climbed 7.5% in the 12 months to December. Turkey's monthly current-account deficit widened to a record $1.7 billion in November. Russia held $24.3 billion in foreign-currency reserves at the end of 2000, up from $8.5 billion a year earlier.

	% change on year earlier			Latest 12 months, $bn		Foreign reserves*, $bn	
	GDP	Industrial production	Consumer prices	Trade balance	Current account	Latest	Year ago
China	+ 7.4 Q4	+ 2.3 Jan	+ 1.5 Dec	+24.0 Jan	+15.7 1999	163.9 Nov	156.8
Hong Kong	+10.4 Q3	− 0.1 Q3	− 1.8 Dec	−10.9 Dec	+ 9.2 Q3	107.5 Dec	96.3
India	+ 7.2 Q4†	+ 6.5 Nov	+ 3.5 Dec	− 8.3 Dec	− 5.6 Q3	37.3 Dec	32.7
Indonesia	+ 5.1 Q3	+38.4 Q4†	+ 8.3 Jan	+28.3 Dec	+ 6.2 Q1	22.6 Dec	26.5
Malaysia	+ 7.7 Q3	+15.1 Dec	+ 1.4 Dec	+16.0 Dec	+11.3 Q2	29.5 Dec	30.6
Philippines	+ 4.8 Q3	+36.6 Nov	+ 6.9 Jan	+ 5.7 Nov	+ 9.1 Aug	12.5 Oct	12.8
Singapore	+10.5 Q4	+20.0 Dec	+ 2.1 Dec	+ 4.0 Nov	+21.6 Q3	77.5 Nov	74.3
South Korea	+ 9.2 Q3	+ 4.7 Dec	+ 4.2 Jan	+12.9 Jan	+11.7 Nov	96.2 Dec	74.0
Taiwan	+ 6.6 Q3	− 2.1 Dec	+ 2.4 Jan	+ 8.1 Jan	+ 7.5 Q3	106.7 Dec	106.2
Thailand	+ 2.6 Q3	+ 1.5 Dec	+ 1.3 Jan	+ 5.6 Dec	+ 9.2 Dec	32.0 Dec	34.1
Argentina	nil Q3	− 3.4 Dec	− 1.5 Jan	+ 1.1 Dec	−10.5 Q3	25.2 Dec	26.3
Brazil	+ 4.4 Q4	+ 7.5 Dec	+ 5.4 Jan	− 1.1 Jan	−24.6 Dec	32.5 Nov	42.2
Chile	+ 5.8 Q3	− 3.8 Dec	+ 4.7 Jan	+ 1.5 Dec	− 0.7 Q3	14.2 Nov	14.1
Colombia	+ 3.1 Q3	+ 0.2 Dec	+ 8.5 Jan	+ 2.3 Dec	+ 0.1 Q2	8.1 Dec	7.6
Mexico	+ 7.1 Q3	− 0.4 Dec	+ 8.1 Jan	− 8.0 Dec	−16.4 Q3	35.5 Dec	31.8
Peru	− 1.8 Dec	+ 0.9 Nov**	+ 3.9 Jan	− 0.4 Nov	− 1.6 Q3	8.5 Nov	8.9
Venezuela	+ 3.3 Q3	na	+ 12.6 Jan	+14.4 Jul	+11.8 Q3	13.1 Dec	12.3
Egypt	+ 6.5 2000‡	+ 9.4 2000‡	+ 2.4 Nov	−10.8 Q3	− 0.9 Q3	12.9 Oct	15.4
Israel	+ 3.0 Q4	+ 6.0 Nov	nil Dec	− 6.9 Jan	− 0.7 Q3	23.2 Jan	22.1
South Africa	+ 4.5 Q3	+ 4.1 Dec	+ 7.0 Dec	+ 3.2 Dec	− 0.7 Q3	6.1 Nov	6.3
Turkey	+ 7.4 Q3	− 4.2 Dec	+ 35.9 Jan	−27.4 Nov	−10.3 Nov	18.8 Nov	22.7
Czech Republic	+ 2.2 Q3	+ 1.4 Dec	+ 4.2 Jan	− 3.3 Dec	− 1.9 Q3	13.1 Dec	12.9
Hungary	+ 4.6 Q3	+10.1 Dec	+ 10.1 Jan	− 2.3 Dec	− 1.8 Dec	11.2 Dec	11.0
Poland	+ 2.2 Q4	− 2.2 Dec	+ 8.5 Dec	−11.0 Dec	− 9.9 Dec	25.3 Dec	24.5
Russia	+ 7.9 Q4	+ 2.5 Dec	+ 20.7 Jan	+59.8 Nov	+43.8 Q3	24.3 Dec	8.5
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*						
Pakistan	+ 3.9 1999‡	+ 4.6 Jul	+ 4.9 Nov	− 2.0 Nov	− 2.5 1999	1.2 Dec	1.5
Saudi Arabia	+ 0.4 1999	na	− 1.0 Oct	+24.9 1999	− 1.7 1999	16.7 Nov	14.1

*Excluding gold, except Singapore; IMF definition. †1999. ‡Year ending June. **New series

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